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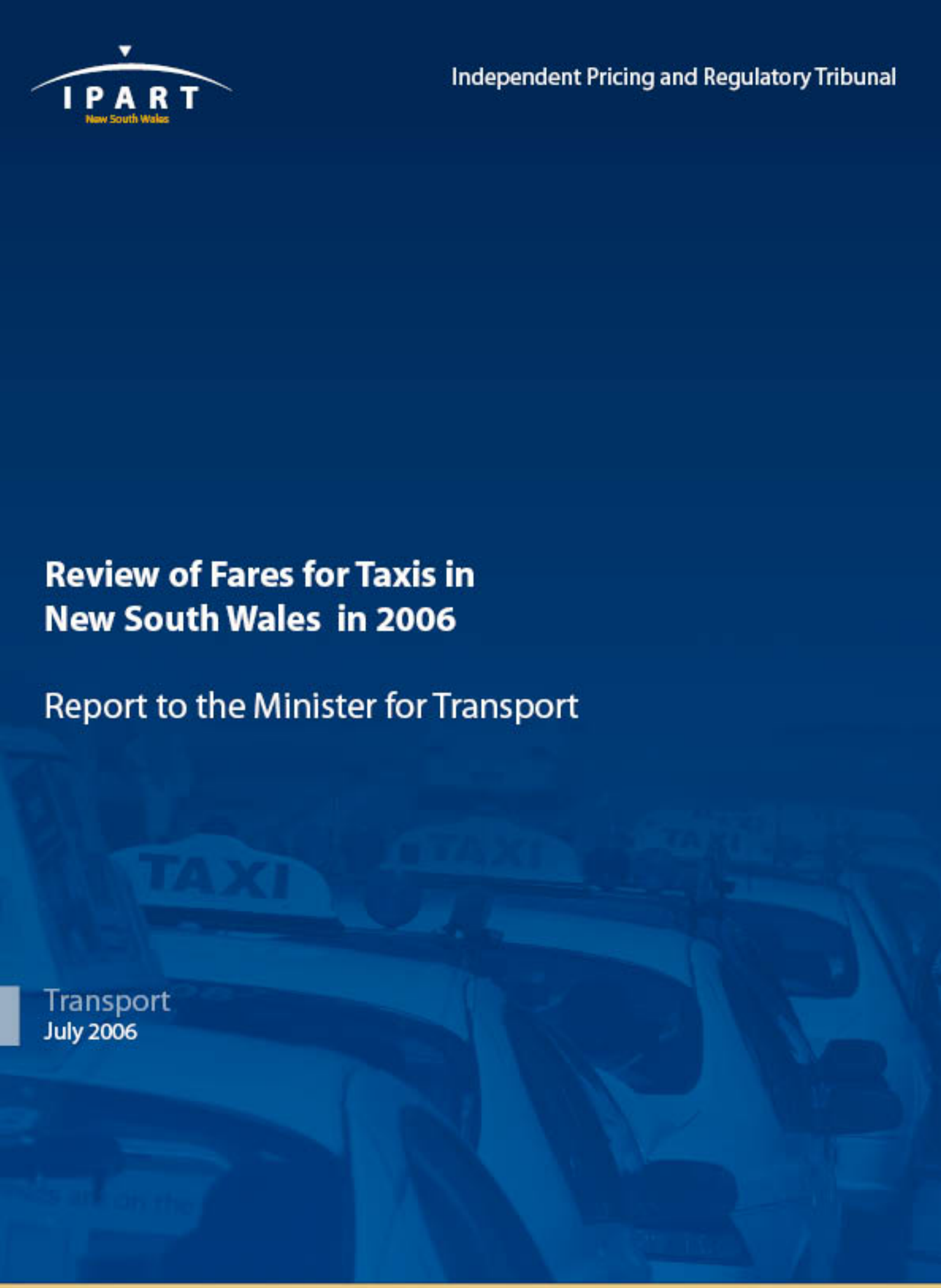
New South Wales

Independent Pricing and Regulatory Tribunal

Review of Fares for Taxis in New South Wales in 2006

Report to the Minister for Transport



Transport
July 2006

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Final Report

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The Tribunal members for this review are:

Dr Michael Keating AC, Chairman
Mr James Cox, CEO and Full Time Member

Inquiries regarding this review should be directed to:

Ruth Lavery ☎ 02 9290 8447
Sheridan Rapmund ☎ 02 9290 8430

Independent Pricing and Regulatory Tribunal of New South Wales
Level 2, 44 Market Street, Sydney NSW 2000
☎ (02) 9290 8400 Fax (02) 9290 2061
www.ipart.nsw.gov.au
All correspondence to: PO Box Q290, QVB Post Office NSW 1230

TABLE OF CONTENTS

1 INTRODUCTION AND OVERVIEW

In response to a request from the Premier, the Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) reviews the maximum fares charged for taxi services regulated under the *Passenger Transport Act 1990* every year, and reports its findings and recommended changes to these fares to the Minister for Transport.[1]

The Tribunal's role in investigating and reporting on prices for taxi fares reflects the Government's continuing commitment to an independent and expert determination of fares, providing the travelling public and transport providers with certainty over the fare review process.

As part of this year's review, the Tribunal asked a range of stakeholders within the taxi industry and members of the public to propose how maximum fares should change in 2006/07, to reflect changes in the costs of providing taxi services. The Tribunal also reviewed the approach that it currently uses to assess changes in these costs and recommend adjustments to taxi fares, and identified several alternative approaches. It released an Issues Paper that indicated its intention to consider adopting a new approach for recommending changes to taxi fares, explained each of the alternative options, and called for submissions.

The Tribunal has now considered the submissions it received and conducted further analysis. This report explains its findings, and sets out its recommended changes to maximum taxi fares for 2006/07.

1.1 Overview of findings and recommendations

In response to stakeholder concerns about the need for additional time to consider the alternative approaches, the Tribunal decided to use the same approach it has used in previous years – the Taxi Cost Indices for urban and country areas – for recommending fare changes for 2006/07. This allows for a timely increase in taxi fares, particularly to reflect increases in fuel costs that have occurred over the past year. The Tribunal intends to complete its review of the approach for recommending changes to taxi fares prior to making a recommendation on fares for 2007/08.

Based on the percentage change in industry costs measured by these indices over the 12 months to 31 March 2006, the Tribunal recommends that maximum taxi fares should increase by:

- 3.5 per cent in urban areas
- 2.5 per cent in country areas.

In formulating these recommendations, the Tribunal reviewed and verified (to the extent possible) the consistency and representativeness of the cost items in the Taxi Cost Indices that have been used in past years. It also amended some of these items based on the latest available data, and made an adjustment to account for the potential for productivity gains within the taxi industry. It then recommended maximum fare increases that are equivalent to the increases in the taxi industry's productivity-adjusted costs in urban and country areas

[1] The Premier's request was made in accordance with section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act 1992*.

The Tribunal will continue consulting on potential productivity improvements and the alternative approaches for recommending changes to taxi fares, as presented in its Issues Paper[2]. It intends to complete this process prior to making its recommendations on taxi fares for 2007/08.

The Tribunal recognises that the consultation process it has undertaken to date on the alternative approaches has delayed the release of this report and recommendations.[3] While it is up to the Director General of the Ministry of Transport to decide on which date new fares will apply, the Tribunal has recommended a methodology for accommodating the effect of the post 1 July implementation, should the Director General wish to do so. If, for example, the Director General elected to increase fares from 14 August 2006, maximum taxi fares for urban areas would rise by 4.0 per cent and for country areas by 2.9 per cent.

1.2 Structure of this report

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

- Chapter 2 explains the Tribunal's review and decision making process
- Chapter 3 discusses the Tribunal's assessment of the changes to the Taxi Cost Indices that have occurred between 1 April 2005 to 31 March 2006, and of the appropriate adjustment to these indices to reflect the potential for productivity gains
- Chapter 4 sets out the Tribunal's recommended fares for 2006/07, and explains its recommended methodology for adjusting these recommended fares to take account of the fact that the new fares cannot be implemented until after 1 July.
- Chapter 5 discusses the implications of the Tribunal's recommended fare changes for taxi industry participants, taxi passengers, the environment, and the government
- Chapter 6 discusses the Tribunal's recommendation in relation to funding measures to enhance taxi driver security
- Chapter 7 outlines the indicative timetable for completing the Tribunal's review of the approach used for recommending changes to taxi fares.

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2 IPART, *Review of Taxi Fares 2006 - Issues Paper*, June 2006. This Issues Paper is available on the Tribunal's website, www.ipart.nsw.gov.au.

3 Usually, the Tribunal is required to make its recommendations to the Minister by June each year. However, for this year, the Tribunal requested and was granted by the Premier an extension to allow it to undertake its proposed review of the approach used for recommending changes to taxi fares.

2 TRIBUNAL'S REVIEW AND DECISION-MAKING PROCESS

The Tribunal reviews taxi fares annually, using the powers provided under Section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act), and in accordance with the terms of reference provided by the Premier on 4 November 2002. These terms of reference require the Tribunal to:

- investigate the need for maximum taxi fares to be adjusted, taking into account the cost of providing the services concerned, the efficiency of these services, the quality and reliability of these services, and the need to protect consumers from monopoly power
- report its findings and recommended changes to maximum taxi fares to the Minister for Transport. (See Attachment 1 for the complete terms of reference.)

The following sections set out the current maximum fares that apply to taxi services, and explain how the Tribunal has reviewed the need for these fares to be adjusted and decided on its recommended fares for 2006/07. Attachment 3 provides an overview of recent data on service quality in urban and country areas.

2.1 Current taxi fares

Currently, the maximum fares for taxi services in NSW are prescribed by two taxi fare schedules:

- the 'urban' fare schedule that covers Sydney, Central Coast, Newcastle and Wollongong[4]
- the 'country' fare schedule that operates in the remainder of the state.

These fare schedules apply to all taxi-cab services as defined in the *Passenger Transport Act 1990*,[5] including standard taxis (white cabs), premium taxis (such as Silver Service taxis), Wheelchair Accessible Taxis (WATs) and Maxi Taxis (minivans that can accommodate up to 11 passengers). They set out the maximum amount that can be charged for each component of a taxi fare – including the flagfall, the rate per km travelled, the rate per hour of waiting time, and the radio booking fee.

The current maximum charge for each fare component, and the Tribunal's calculation of the current cost of an average taxi fare, are shown on Table 2.1. Please note that these charges are those determined by the Director General of the Ministry of Transport (MoT), and are not necessarily the same as the maximum fare schedules recommended by the Tribunal, whose role is only to investigate and report on fares.

2.2 Tribunal's review process

In line with the process it has used since it began reviewing taxi fares in 2001, the Tribunal based its recommendations for fare changes in 2006/07 on a modified version of the Taxi Cost Indices for urban and country areas that were developed by PricewaterhouseCoopers for the MoT and the NSW Taxi Council in 1999.[6]

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4 The 'urban' area also includes Blue Mountains, Shellharbour, Cams Wharf, Fern Bay, Minmi, Toronto, Williamtown, Medowie, Campvale, Ferodale, Raymond Terrace, Fassifern, Hexham, Maitland, Beresfield, Fullerton Cove, Tomago, Camden, Picton, Thirlmere, Tahmoor and Bargo.

5 Section 29A.

6 The Tribunal modified this index by including allowances for bailee driver labour and taxi plate values.

As part of its review process, the Tribunal:

- invited the NSW Taxi Council to make a submission that provided its values for the inputs to the Taxi Cost Indices, and proposed changes to the fare components in line with any changes to these values
- invited submissions from other industry stakeholders – including the Transport Worker's Union and the Taxi Drivers' Association
- made these submissions available on its website, and invited submissions from stakeholders and members of the public
- released an issues paper, and invited further submissions on the issues raised (see Attachment 4 for a list of all submissions received)
- undertook its own research and analysis.

The Tribunal then assessed the information provided by the NSW Taxi Council on changes in the values of inputs to the Taxi Cost Indices, and amended the proposed changes in line with its assessment. It also considered how the Taxi Cost Indices should be adjusted to take account of the potential for the taxi industry to make productivity gains over the coming year, and estimated an appropriate level for this adjustment taking into account stakeholder comments. Finally, it adjusted the amended changes to the Taxi Cost Indices in line with its productivity estimate.

The Tribunal's recommended changes in maximum taxi fares reflect its amended productivity-adjusted changes to the Taxi Cost Indices for 2006.

Table 2.1 Fare components and average fares, from 10 July 2005

	Urban areas	Country areas
Flagfall	$2.80	$3.30
Distance (per km)	$1.62	$1.69
Waiting time (per hour)	$40.91	$40.91
Radio booking fee	$1.40	$0.90
Average fare	**$16.47**	**$10.87**

Notes:

- 'Radio booking fee' refers to the fee for booking a taxi over the phone.
- 'Waiting time' applies when vehicle speed is less than 25.25kph in urban areas, and less than 24.21kph in country areas.
- The average urban fare is currently based on a 7 km trip, a radio booking every fifth trip and 3 minutes of waiting time. The assumption that an average trip is 7 km is based on information provided by the Transport Population and Data Centre of the NSW Department of Planning from the 2003 Household Travel Survey (which is the latest available). The other assumptions are based on information provided by industry stakeholders in past reviews.
- The average country fare is based on a 3 km trip, a radio booking every second trip, and 3 minutes waiting time. These assumptions are based on information provided by industry stakeholders in past reviews.

3 TRIBUNAL'S ASSESSMENT OF CHANGES TO TAXI COST INDICES AND APPROPRIATE PRODUCTIVITY ADJUSTMENT

As the previous chapter discussed, in determining its recommended changes to maximum taxi fares for 2006/07, the Tribunal assessed the changes to the current Taxi Cost Indices proposed by the NSW Taxi Council, and decided on an appropriate adjustment to these indices to take account of the potential for productivity gains over the coming year. It found that maximum taxi fares need to increase by an average 3.5 per cent in urban areas, and 2.5 per cent in country areas, to compensate taxi industry participants for their productivity-adjusted cost increases over the period 1 April 2005 to 31 March 2006.

The following sections set out the NSW Taxi Council's proposed changes to the cost indices, and discuss the Tribunal's amendments to these changes based on its assessment of them, and its considerations and conclusions on an appropriate productivity adjustment.

3.1 NSW Taxi Council's proposed changes to the Taxi Cost Indices for 2006

The NSW Taxi Council's proposed changes to the value of the cost items within the Taxi Cost Indices for urban and country areas, provided as part of its 2006 submission to the Tribunal, are shown in Tables 3.1 and 3.2 on the following pages.

In line with these proposed changes, the NSW Taxi Council requested increases to maximum taxi fares of 5.1 per cent in urban areas and 3.8 per cent in country areas.

3.2 Tribunal's amendments to the proposed changes in the Taxi Cost Indices for 2006

As it has done in previous years, the Tribunal assessed the NSW Taxi Council's proposed changes to the value of the cost items within the cost indices. In particular, it investigated and assessed whether the proposed change in the cost of each item is based on information that is:

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

Based on this assessment, the Tribunal made amendments to the proposed value of the fuel cost item in both the urban and country Taxi Cost Index, and to the proposed value of the network fees cost item in the urban Taxi Cost Index. It also updated the proposed value of a range of cost items in both indices, so that they reflect the latest available information. These amendments are discussed below.

Table 3.1 NSW Taxi Council – Proposed changes in the Taxi Cost Index for urban areas, 2005 to 2006

Urban Operator Expenses	Measured at 31 March 2005	Index Change	Measured at 31 March 2006	Contribution to total fare change
Fixed Costs				
Vehicle Lease payments	$9,926	-4.3%	$9,498	-0.2%
Insurance	$14,329	0.5%	$14,396	0.0%
Govt Charges	$797	1.8%	$811	0.0%
Network Fees	$6,848	0.1%	$6,852	0.0%
Plate Lease cost	$20,806	4.4%	$21,722	0.6%
Annualised Establishment Costs	$1,505	10.4%	$1,661	0.1%
Variable Costs				
Maintenance Labour	$8,842	3.6%	$9,163	0.2%
Vehicle Parts & Panels	$11,402	2.4%	$11,673	0.1%
Cleaning	$480	0.0%	$480	0.0%
Tyres	$3,399	15.3%	$3,920	0.3%
Operator Salary Equivalent	$13,919	3.6%	$14,415	0.3%
Driver entitlements	$4,164	3.0%	$4,287	0.1%
Uniforms	$2,406	-0.9%	$2,384	-0.0%
Other	$3,755	2.3%	$3,841	0.1%
Driver Expenses				
LPG Fuel	$15,290	28.1%	$19,587	2.4%
Notional Driver's Wages	$69,048	3.6%	$71,511	1.3%
Cleaning	$3,082	2.3%	$3,153	0.0%
Total	$190,000		$199,355	**5.1%**
Operator Component	$102,580		$105,105	1.4%
Driver Component	$87,420		$94,251	3.7%
Total	$190,000		$199,355	**5.1%**

Table 3.2 NSW Taxi Council - Proposed changes in the Taxi Cost Index for country areas, 2005 to 2006

Country Operator Expenses	Measured at 31 March 2005	Index Change	Measured at 31 March 2006	Contribution to total fare change
Fixed Costs				
Vehicle Lease payments	$9,936	-9.8%	$8,966	-0.6%
Insurance	$8,229	5.1%	$8,648	0.3%
Govt Charges	$797	1.8%	$811	0.0%
Network Fees	$10,794	-4.0%	$10,366	-0.3%
Plate Lease cost	$11,284	4.4%	$11,780	0.5%
Annualised Establishment Costs	$753	10.4%	$831	0.1%
Variable Costs				
Maintenance Labour	$7,497	4.4%	$7,828	0.2%
Vehicle Parts & Panels	$5,930	2.4%	$6,071	0.1%
Cleaning	$2,416	2.3%	$2,471	0.1%
Tyres	$2,428	15.3%	$2,800	0.2%
Operator Salary Equivalent	$13,919	3.6%	$14,415	0.3%
Uniforms	$2,406	-0.9%	$2,384	-0.0%
Other	$3,466	2.3%	$3,545	0.1%
LPG Fuel	$12,868	17.8%	$15,157	1.6%
Driver Expenses				
Notional Driver's Wages	$54,404	3.6%	$56,344	1.3%
Total	$147,127		$152,420	**3.8%**
Operator Component	$92,723		$96,076	2.4%
Driver Component	$54,404		$56,344	1.3%
Total	$147,127		$152,420	**3.8%**

3.2.1 Tribunal's amendment to the fuel cost item

The Tribunal amended the LPG Fuel cost item in the Taxi Cost Index for both urban and country areas, so the value of this item is calculated using the same methodology as in previous years – that is, by using the average over April 2005 to March 2006 compared to the average over April 2004 to March 2005, rather than the price in February 2006 compared to the price in February 2005 as submitted by the Taxi Council. The Tribunal believes this methodology gives a better indication of the trend in LPG prices than comparing the prices at two individual points in time, as fuel is purchased throughout the year. The Tribunal notes that LPG prices have fallen on average in the June quarter 2006, and if this data were included the rise in the fuel cost item would be reduced.

3.2.2 Tribunal's amendment to the network fees cost item

The Tribunal amended the value of the network fees item in the Taxi Cost Index for urban areas, to include data for Wollongong and Manly networks that the NSW Taxi Council provided after it had made its submission.

3.2.3 Tribunal's amendments to reflect latest available data

Where possible, the Tribunal amended the value of items in both Taxi Cost Indices so that each index measures the movement in costs for the period from 1 April 2005 to 31 March 2006. In particular, the Tribunal amended the value of all items that are adjusted in line with the movement in the Consumer Price Index (CPI) and its components or with the Wage Price Index, to reflect the latest data available from the Australian Bureau of Statistics (ABS) (that is, the March quarter 2006 data, which became available after the NSW Taxi Council had made its submission).

The Tribunal also amended the plate lease cost item, to include transfer values to the end of March 2006 provided by the Ministry of Transport.

The Tribunal was not able to use more recent data, as the Wage Price Index (WPI) for the June quarter, which is used for nearly half of the index, will not be released until 16 August 2006, and the CPI for the June quarter will not be available until 26 July 2006.

3.2.4 Driver superannuation

On 4 May 2005, the IRC decided that permanent taxi bailee drivers should receive occupational superannuation entitlements.[7] 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.[8]

3.2.5 Tribunal's amended Taxi Cost Indices

As result of the amendments discussed above, the Tribunal's amended Taxi Cost Index for urban areas indicates a total cost increase of 4.0 per cent (Table 3.3). The Tribunal's amended Taxi Cost Index for country areas indicates a total cost increase of 3.0 per cent (Table 3.4).

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7 Industrial Relations Commission of New South Wales, Transport Workers' Union of New South Wales v New South Wales Taxi Industry Association [2005] NSWIRComm 1038, available at http://caselaw.lawlink.nsw.gov.au/isysquery/irl8c43/3/doc.

8 As previously stated in its 9 June 2005 Report to the Minister for Transport, Review of fares for taxis in New South Wales in 2005 Proposed from July 2005, p 24.

Table 3.3 Tribunal's amended Taxi Cost Index for urban areas, 2006

Urban Operator Expenses	Measured at 31 March 2005	Index Change	Measured at 31 March 2006	Index Weights	Contribution to total fare change	Change in costs
Fixed Costs						
Vehicle Lease payments	$9,926	-4.3%	$9,498	4.8%	-0.2%	
Insurance	$14,329	0.5%	$14,396	6.2%	0.0%	
Govt Charges	$797	1.8%	$811	0.5%	0.0%	
Network Fees	$6,848	0.0%	$6,849	3.4%	0.0%	
Plate Lease cost	$20,806	4.2%	$21,674	14.2%	0.6%	
Annualised Establishment Costs	$1,505	10.4%	$1,661	0.6%	0.1%	
Variable Costs						
Maintenance Labour	$8,842	3.6%	$9,163	4.1%	0.2%	
Vehicle Parts & Panels	$11,402	2.7%	$11,709	5.2%	0.1%	
Cleaning	$480	0.0%	$480	0.2%	0.0%	
Tyres	$3,399	15.3%	$3,920	1.6%	0.3%	
Operator Salary Equivalent	$13,919	4.1%	$14,488	7.3%	0.3%	
Driver entitlements	$4,164	3.0%	$4,287	2.2%	0.1%	
Uniforms	$2,406	-1.6%	$2,369	1.5%	-0.0%	
Other	$3,755	2.6%	$3,854	2.0%	0.1%	
Driver Expenses						
LPG Fuel	$15,290	12.5%	$17,201	8.4%	1.0%	
Notional Driver's Wages	$69,048	4.1%	$71,870	36.1%	1.5%	
Cleaning	$3,082	2.6%	$3,163	1.8%	0.1%	
Total	$190,000		$197,394	100.0%	**4.0%**	
Operator Component	$102,580		$105,159	53.7%	1.4%	**2.6%**
Driver Component	$87,420		$92,235	46.3%	2.6%	**5.6%**
Total	$190,000		$197,394	100.0%	4.0%	**4.0%**

Table 3.4 Tribunal's amended Taxi Cost Index for country areas, 2006

Country Operator Expenses	2005	Index Change	2006	Contribution to total fare change
Fixed Costs				
Vehicle Lease payments	$9,936	-9.8%	$8,966	-0.6%
Insurance	$8,229	5.1%	$8,648	0.3%
Govt Charges	$797	1.8%	$811	0.0%
Network Fees	$10,794	-4.0%	$10,366	-0.3%
Plate Lease cost	$11,284	4.2%	$11,755	0.4%
Annualised Establishment Costs	$753	10.4%	$831	0.1%
Variable Costs				
Maintenance Labour	$7,497	4.4%	$7,828	0.2%
Vehicle Parts & Panels	$5,930	2.7%	$6,089	0.1%
Cleaning	$2,416	2.6%	$2,480	0.1%
Tyres	$2,428	15.3%	$2,800	0.2%
Operator Salary Equivalent	$13,919	4.1%	$14,488	0.4%
Uniforms	$2,406	-1.6%	$2,369	-0.0%
Other	$3,466	2.6%	$3,557	0.1%
LPG Fuel	$12,868	6.9%	$13,758	0.6%
Driver Expenses				
Notional Driver's Wages	$54,404	4.1%	$56,628	1.5%
Total	$147,127		$151,374	**3.0%**
Operator Component	$92,723		$94,746	1.5%
Driver Component	$54,404		$56,628	1.5%
Total	$147,127		$151,374	3.0%

3.3 Tribunal's considerations and conclusions on an appropriate productivity adjustment

As the Issues Paper for this review discussed, the Tribunal's terms of reference for this review require it to consider "the cost of providing the services concerned." This phrase has often been interpreted as referring to the costs per unit of *input*. However, the Tribunal considers it reasonable for it to also consider changes in output per hour worked – that is, to consider the potential for productivity growth.

Indeed, the Tribunal considers that one of the major weaknesses of relying on a methodology that simply measures changes in costs per unit of input is that it makes no allowance for the ongoing rises in productivity (output per hour worked) that characterise the Australian economy. The Tribunal believes productivity will continue to rise in the future, both for the economy as a whole and the taxi industry. It notes that the Victorian regulator, the Essential Services Commission (ESC), shares this view. In its 2005 review of taxi fares, the ESC commented that:

> A labour intensive activity such as taxi services, which competes with other modes of passenger transport, would be expected to generate total factor productivity improvements to remain competitive.[9]

One potential source of productivity gains is greater fleet utilisation. For example, the ESC has observed in Victoria that taxi "vehicles are being operated more intensively which means fixed costs are spread over a greater number of paid kilometres".[10] In its submission to the Tribunal's 2006 review, the NSW Taxi Council noted that "productivity gains have been made by taxi networks in the most recent year"[11] and cited several examples that demonstrate the industry's efforts to increase efficiency. These examples include:

- The reduction in country network fees due to the establishment of a joint communications centre to provide booking and despatch services for networks in Dubbo, Orange and Bathurst.
- The trial of a hybrid-engine vehicle (Toyota Prius) that has been operating as a Sydney taxi for 11 weeks.
- The establishment, in conjunction with Willoughby Council, of a pre-booked shared ride service to increase fleet utilisation during off-peak periods.

The Tribunal received three submissions to its Issues Paper that considered the issue of productivity. All three submissions expressed a reluctance to introduce a productivity adjustment until sufficient data is available to quantify it properly, and a mechanism is in place to ensure the effect of a productivity adjustment flows to the sector of the industry that has achieved the gains. For example, NSW Taxi Council stated that it:

> …would not argue against factoring productivity into the fare adjustment provided the measure used met the Tribunal's own criteria in being representative, verifiable and consistent.[12]

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9 ESC Final Report, *Taxi Fare Review 2005*, p 4.
10 ESC Final Report, *Taxi Fare Review 2005*, p 41.
11 NSW Taxi Council submission, March 2006, p 5.
12 NSW Taxi Council submission to Issues Paper, p 4.

The Taxi Council also stated that:

> …if a productivity factor is included in the fare adjustment then it needs to flow through to the parties that have achieved the productivity gains.[13]

The Tribunal has taken these stakeholder concerns into account in deciding to adjust the average increase in input costs for productivity gains within the taxi industry. Use of a conservative estimate allows for any imprecision in determining a specific productivity gain for the taxi industry.

Productivity gains have been observed and accounted for in all industries regulated by the Tribunal, and in many other industries where there are competitive pressures due to market forces. Significant increases in productivity have occurred in the telecommunications and computer industries resulting in prices falling because competition has ensured that lower costs are passed on to consumers. However, even in industries where prices have increased, they would have increased faster without an adjustment for productivity gains.

The Tribunal in no way accepts the suggestion that there is no scope for productivity gains in the taxi industry; in fact, it is far more likely that some productivity growth will occur than no productivity growth. It is implausible that industry participants would invest in new technology such as Global Packet Radio Service (GPRS), without an expectation that there would be gains in productivity. Improvements in the efficiency with which motor vehicles operate and are maintained also benefit the taxi industry.

Adjusting for productivity gains will reduce the impact of fare rises on passengers, consistent with the requirements in the terms of reference for the Tribunal to consider the need for greater efficiency so as to reduce costs for the benefit of passengers along with the social impact of its recommendations. If the productivity adjustment is reasonable, it will not unduly depress the returns achieved by taxi operators and drivers.

The Tribunal notes that its role under the terms of reference is to make a recommendation on fares based on the costs of the industry, not to apportion those fares between industry participants. The earnings of individual industry participants are a function of the ability of each to outperform the productivity gain component used in determining the overall fare increase.

The Tribunal considered several approaches for determining an adjustment to take account of these productivity gains in setting taxi fares – including using transport industry data from the ABS, and using economy-wide data on labour productivity from the ABS. However, it decided that the most appropriate approach was to make a conservative estimate of the potential for the taxi industry to achieve productivity gains. Each of these approaches and the Tribunal's rationale for adopting the conservative estimate approach are summarised below.

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13 NSW Taxi Council submission to Issues Paper, p 5.

3.3.1 Using transport industry data from the ABS

The ABS collects and publishes industry-sector data on gross value added at constant prices, and on the number of employees. However, it does not collect data specifically on the passenger transport industry. The industry sector most relevant to the taxi industry is Transport and Storage. This sector includes business units that are engaged in providing:

- passenger or freight transport by road, rail, water or air
- terminal facilities for passengers or freight
- services related to transport such as car parking, stevedoring, harbour services, navigation services, airport operation or space port operation
- booking, travel, freight forwarding, crating or customs agency services
- storage facilities.

It also includes business units that are mainly engaged in operating pipelines for the transportation of oil, gas, etc, on a contract or fee basis.

The Transport and Storage sector data indicates that in 2004/05, gross value added per employee (a proxy for labour productivity) increased by 1.2 per cent in the sector.[14] Over the past six years, this measure increased by an annual average of 4.0 per cent (largely due to 8 per cent increases in each of 2001/02 and 2002/03). Over the past two decades, it increased by an annual average of 3.5 per cent, compared to an annual average of 1.4 per cent in the economy as a whole.

Much of this productivity growth is likely to have come from the microeconomic reforms that have driven productivity gains in freight handling at ports and airports, and on roads and railways. (For example, the number of containers unloaded per hour at main eastern seaboard ports has more than doubled since 1998.) However, these gains are of no obvious relevance to productivity in the passenger transport industry.

3.3.2 Using economy-wide data on labour productivity from the ABS

The ABS also collects and publishes data on economy-wide labour productivity. One measure of this productivity is the rise in the volume of gross value added relative to total hours worked. (This is the widely accepted definition of labour productivity at the national level.) Using this measure, labour productivity has increased at an average annual rate of 1.48 per cent over the past six years.[15]

Another broad measure of labour productivity is the trend GDP per hour worked. Using this measure, over the last five years labour productivity within the market sector of the economy increased by an annual average of 2.0 per cent. Over the past two decades, labour productivity in the whole economy grew by an annual average of 1.6 per cent, and in the market sector, by an annual average of 2.1 per cent.

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14 ABS, *Australian National Accounts National Income, Expenditure and Product, December 2005;* ABS Labour Force, Australia, December 2005.

15 The average of the annual increases in GDP per hour worked from 2000/01 to 2004/05. Source: ABS Australian National Accounts National Income, Expenditure and Product, June Quarter 2005.

3.3.3 Making a conservative estimate of the taxi industry's potential to achieve productivity gains above the economy-wide gains

Since there is no direct measure for productivity gains in the NSW taxi industry, and given the uncertainty about how the alternative measures discussed above could be applied to the taxi industry, the Tribunal believes that it is appropriate to adopt the more conservative approach of estimating the potential for the taxi industry to achieve productivity gains.

The Tribunal considers that a productivity adjustment calculated to be 1.0 per cent of the labour component of industry-wide costs would be reasonable. This is a conservative assessment, made with regard to the risk of inappropriately reducing the level of returns to industry participants, while also taking into account that it is improbable that the taxi industry would fail to achieve some form of productivity gain. It also recognises that the scope for productivity increases is less in the taxi industry than in some other industries where technological progress is faster, and that some economy wide productivity gains would be reflected in the rise in non-labour items in the Taxi Cost Indices. The Tribunal notes that this productivity adjustment is consistent with its recommended productivity adjustment for private bus fares in 2005.[16]

After the Tribunal amended the NSW Taxi Council's proposed changes to the Taxi Cost Indices in line with its assessment, and adjusted the amended cost indices in line with its productivity estimate, the resulting increase in these indices for 2006 is 3.5 per cent for urban areas and 2.5 per cent for country areas.[17]

3.3.4 Allocation of productivity gains between operators and drivers

The Tribunal has considered how the productivity growth component should be allocated between taxi operators and taxi drivers. In the absence of detailed information about arrangements between operators and drivers in the taxi industry, the Tribunal has considered

- the scope for operators and drivers to make productivity gains
- the extent to which operators and drivers benefit from productivity gains
- issues of fairness between operators and drivers.

There is scope for both drivers and operators to make productivity gains. However, there may be more scope for operators to take action to improve productivity, for example through investment in better vehicles and communication facilities, than drivers.

In the taxi industry, revenue is paid in the first instance to taxi drivers who then make a payment (pay-in amount) to taxi operators. Productivity improvements that increase revenues therefore benefit drivers in the first instance. It may sometimes be possible for operators and drivers to vary the pay-in amount to enable operators to share in the benefits of productivity improvements. However, this is not possible where the pay-in equals the

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16 In its 2005 review of non-metropolitan private bus fares the Tribunal adopted a 1 per cent productivity growth assumption which it applied to the labour component of the Bus Industry Cost Index, reducing the rise in that index by 0.5 percentage points.

17 The productivity adjustment is a multiplicative one rather than additive as it is percentage changes that are being summed. The calculation is as follows:
productivity adjusted % change = (1 + % change in index)/(1 + % productivity change) - 1

maximum amount set by the Industrial Relations Commission. Drivers will then receive the full benefit of the productivity improvements.

Having considered all of these issues, the Tribunal has decided that 25 per cent of productivity gains should be allocated to operators and 75 per cent to drivers. However, the Tribunal proposes to give these issues further consideration before setting fares for 2007/08.

If urban taxi operators were to be compensated for the rise in their productivity adjusted costs as measured by the Tribunal, the pay-ins from bailee drivers should increase on average by 2.4 per cent, which is represented by the 2.6 per cent increase in their costs less their share of the productivity improvement.[18] Drivers would retain the balance of the fare increase, which would be 4.9 percent (reflecting the rise in their costs of 5.6 per cent less their share of the productivity improvement). The Tribunal notes that the higher amount retained by drivers is due to increases in the cost of fuel for the year to March 2006, which is a cost borne by drivers rather than operators.

[18] There is no need to consider the allocation of the productivity adjustment for country taxis where fare takings are shared equally between the driver and operator and there is no pay in.

4 TRIBUNAL'S RECOMMENDED NEW FARES

The Tribunal recommends that maximum taxi fares be increase in line with the fare structures set out in Table 4.1.

Table 4.1 Fare components and average fares for 2006/07 from 1 July 2006

	Urban fares	Country fares
Flagfall	$2.90	$3.40
Distance (per km)	$1.67	$1.72
Waiting time (per hour)	$43.15	$42.59
Radio booking fee	$1.50	$0.90
Average fare	**$17.05**	**$11.14**
Annual increase in average fare	**3.5%**	**2.5%**

Notes:
- 'Waiting time' applies when vehicle speed is less than 25.83 kph for urban areas and 24.76 kph for country areas.
- 'Radio booking fee' refers to the fee for booking a taxi over the phone.
- The average urban fare calculation assumes a distance travelled of 7 kilometres, 3 minutes of waiting time, and 20 per cent of fares made through a radio booking. The average country fare calculation assumes a distance travelled of 3 kilometres, 3 minutes of waiting time, and half of all fares made through a radio booking. These assumptions are the same as the assumptions made in the Tribunal's 2005 review of taxi fares.

In addition to the fare components shown in Table 4.1, there are a number of other regulated charges that relate to taxi services, including:

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

The Tribunal has not considered increases to these other regulated charges as part of this review, because no stakeholders proposed an increase to these charges in their submissions.

4.1 Recommended methodology for adjusting recommended fares to account for post 1 July implementation

The NSW Taxi Council has requested that fare rises be implemented from 1 July 2006 in line with the original timetable. The Tribunal notes that fares rises have not always occurred on 1 July in the past, and that no adjustment has previously been made to account for this.[19] However, the Tribunal suggests that the following methodology would be appropriate to pro rate the recommended fare rises over the remainder of the 2006/07 financial year to account for implementation later than 1 July:

$$\text{Post – 1 July implementation percentage fare rise} = \text{1 July percentage fare rise} \times \left(\frac{365}{365-d}\right)$$

where d is the number of days post 1 July

For example, for the urban index, if the Director General determines that the fare rise should occur on 14 August 2006,

$$\text{14 August percentage rise} = \text{1 July percentage rise} \times \left(\frac{365}{365-44}\right) = 3.5\% \times \left(\frac{365}{321}\right) = 4.0\%$$

Table 4.2 Fare components and average fares for 2006/07 from 14 August 2006

	Urban fares	Country fares
Flagfall	$2.90	$3.40
Distance (per km)	$1.68	$1.73
Waiting time (per hour)	$43.30	$42.75
Radio booking fee	$1.50	$0.90
Average fare	**$17.13**	**$11.18**
Annual increase in average fare	**4.0%**	**2.9%**

Notes:

- 'Waiting time' applies when vehicle speed is less than 25.77 kph for urban areas and 24.71kph for country areas.
- 'Radio booking fee' refers to the fee for booking a taxi over the phone.
- The average urban fare calculation assumes a distance travelled of 7 kilometres, 3 minutes of waiting time, and 20 per cent of fares made through a radio booking. The average country fare calculation assumes a distance travelled of 3 kilometres, 3 minutes of waiting time, and half of all fares made through a radio booking. These assumptions are the same as the assumptions made in the Tribunal's 2005 review of taxi fares.

[19] Fare increases have applied from 1 September 2001, 22 July 2002, 7 September 2003, 1 November 2004, and 10 July 2005.

5 IMPACT OF RECOMMENDED FARE INCREASES ON STAKEHOLDERS

In making its recommendations, the Tribunal considered the implications of its recommended maximum taxi fares for 2006/07 for taxi industry participants, taxi passengers, the environment and the government.

5.1 Implications for taxi industry participants

The Tribunal considers that its recommended maximum fares for 2006/07 are likely to maintain the industry's current level of financial viability, assuming that the Tribunal's estimate of a productivity component calculated to be 1 per cent of the labour component of costs is accurate.

In making its fare recommendations, the Tribunal has focused on the industry as a whole, and the parties that it is comprised of (that is the industry's networks, licensees, operators, drivers and customers) rather than ancillary services and providers.

5.2 Implications for passengers

The overall impact of the Tribunal's recommended maximum fares on passengers is likely to be small, because spending on urban transport fares (including taxi fares) represents the equivalent of less than one per cent of average Australian household incomes.[20]

However, the impact on individual users of taxis is likely to be somewhat higher. Although it is likely that many frequent users of taxis live in high-income households, some will live in low-income households. Nevertheless, the Tribunal considers that its recommended average increases of 3.5 per cent in urban areas, and 2.5 per cent in country areas, are reasonably modest.

5.3 Implications for the environment

The impact of the recommended maximum fare increases on the environment in terms of pollution and congestion is likely to be minimal, given that the state's taxi fleet of around 6,000 vehicles is tiny compared to the NSW stock of passenger motor vehicles of more than 3 million.

5.4 Implications for the Government

The Government does not fund the taxi industry, so the recommended maximum fare increases have no implications for the level of government funding required.

The Taxi Transport Subsidy Scheme (TTSS) assists some low-income users of taxis. The scheme subsidised passengers by $16.4 m in the 2005 financial year[21]. The cost of this subsidy would be expected to rise in line with the percentage fare increase determined by the Director General, unless the Government makes changes to eligibility requirements.

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

21 Ministry of Transport Annual Report, p 46.

6 TRIBUNAL'S RECOMMENDATION ON FUND FOR EXPENDITURE ON SECURITY MEASURES

In its March 2006 submission to the Tribunal, the NSW Taxi Drivers' Association (TDA) proposed a $1.00 levy on the flagfall of all taxi trips, to create a fund to pay for improvements to driver safety.[22] The TDA noted the recent murder of a Sydney taxi driver, and argued that current measures for driver security are substandard:

> We have screens that are filthy and non-functional. We have cameras that don't work, and a new regulation that prescribes a pre-drive check, an advice on the worksheet to not drive the cab, but no mandatory 'fix' by the operator. We can't lock the driver's door to prevent being pulled out and beaten up.

The TDA also noted that although security cameras are currently installed in some taxis:

> … the cameras in use date back to 1990's technology. Downloads are a problem, and fare evasion is not a reason to obtain a download. It's all done on an outdated analogue system which provides inadequate opportunity for driver checks[23].

The NSW Taxi Council responded to this proposal in a supplementary submission to the Tribunal. It put the view that sufficient safety initiatives are already in place in NSW taxis, and that "the TDA has provided no grounds for a levy on taxi fares to raise money for a 'Taxi Safety Fund'".[24] Nevertheless, it noted that it "has asked the NSW Government to make cameras compulsory in all cabs and to allow the Quality Liaison Officers (Industry enforcement officers) to undertake random inspections of cameras to test they are working".[25]

The Tribunal is sympathetic to the need to ensure driver safety, but has not been provided with sufficient information to offer a view on whether adequate safety measures are in place. If invited to do so by the Director General, the Tribunal would be prepared to consider ways to fund the installation of additional safety equipment in all NSW taxis once the requirements are defined.

22 TDA submission, March 2006, pp 28 and 36.
23 TDA submission, March 2006, p 27.
24 NSW Taxi Council Supplementary submission, April 2006, p 4.
25 NSW Taxi Council Supplementary submission, April 2006, p 10.

7 COMPLETING THE REVIEW OF THE APPROACH USED TO ADJUST TAXI FARES

The Tribunal has several concerns about continuing to use the Taxi Cost Indices as the basis for assessing changes in the costs of providing taxi services and recommending changes to the fare schedule. It has decided to continue its review of the range of alternative approaches, and determine the most appropriate methodology for use in the 2007 review of taxi fares. The Tribunal also intends to continue to investigate the nature of potential productivity improvements in the taxi industry, and where the benefits will fall.

In June 2006, the Tribunal released an Issues Paper that discussed the application of productivity adjustments, identified four alternative approaches to the Taxi Cost Indices, discussed the advantages and disadvantages of each approach, and raised some specific issues on which the Tribunal particularly seeks stakeholder comment. These approaches and issues are summarised in Attachment 5.

The Tribunal invites all interested parties to make a submission on these approaches and issues. The closing date for these submissions is 20 October 2006. Further details on how to make a submission are provided on the Tribunal's website.

Prior to this date, the Tribunal intends to hold information sessions for stakeholders, to provide them with further information about the productivity adjustment and the range of options for assessing cost changes to be considered and assist them in framing appropriately informed responses to the issues raised by the Tribunal. An indicative timetable for completing this review is provided below.

Indicative timetable for completing the review

Hold information session for stakeholders on productivity adjustments	4 August 2006
Hold information session for stakeholders on alternatives to the Taxi Cost Indices	September 2006
Receive submissions from stakeholders on alternative approaches	20 October 2006
Consider submissions	November 2006
Make decision, and release report	December 2006

ATTACHMENT 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 Ministry of Transport.

The table below indicates where each of the terms of reference have been addressed in the report.

Table A1.1 Consideration of the terms of reference

Terms of Reference	Report reference
i. cost of providing the service	Sections 3.1 – 3.2
ii. protection of consumers from abuse of monopoly power	Section 5.2
iii. need for greater efficiency in supply of services	Section 3.3
iv. impact of pricing on borrowing and capital requirements	N/A
v. ecologically sustainable development	Section 5.3
vi. social impact of recommendations	Section 5.2
vii. standards of quality, reliability and safety	Attachment 3
viii. effect on level of Government funding	Section 5.4

ATTACHMENT 2 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

ATTACHMENT 3 SERVICE QUALITY

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.

Metropolitan performance relative to standards

Since May 2004 Sydney Taxi Key Performance Indicators (KPI) for the authorised networks have been collected by the Ministry of Transport on a monthly basis. The Ministry of Transport also collects data for the Zero200 WAT Dispatch Service.

A summary of the 2004/05 and 2005/06[26] data for ten Sydney taxi networks (excluding the Zero 200 service) have been aggregated and is shown in Table A3.1. The data relate only to taxi trips booked through radio booking services (which constitutes around 20 per cent of total taxi hirings.[27])

[26] 2005/06 data is up to May 2006.

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

Table A3.1 Sydney Taxis KPIs[28]

	2004/05	2005/06	change (%)
Taxis on the network	4,872	4,929	1.2%
Phone calls received	1,018,558	1,083,459	6.4%
Number of bookings accepted by drivers	879,732	889,258	1.1%
Number of no shows	86,885	90,543	4.2%
Call answered within 1 min	947,255	1,023,248	8.0%
Call answered within 1 to 2 min	49,090	134,970	174.9%
Call answered after 2 min	25,243	19,459	-22.9%
Pickup within 15 minutes of booking	691,785	722,572	4.5%
Pickup between 15 and 30 minutes of booking	77,391	52,713	-31.9%
Pickup between 30 and 60 minutes of booking	8,534	6,444	-24.5%
Pickup after 60 minutes of booking	132	474	259.1%
Total pickups	780,247	781,914	0.2%
Bookings per taxi (average)	181	180	-0.1%
Pickups per taxi (average)	160	159	-0.9%

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.

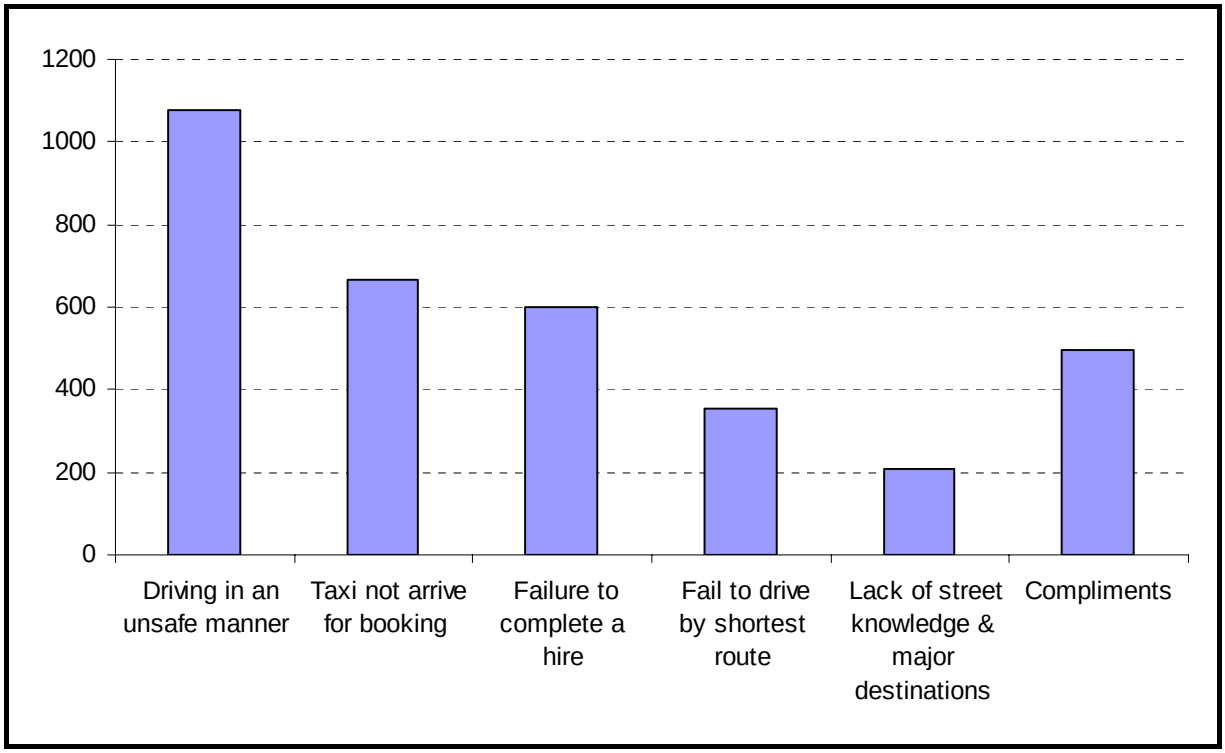
The Ministry of Transport was unable to provide the Tribunal with data relating to country network performance.

[28] Source: Ministry of Transport KPI Monthly Network reports. 2005/06 figures are for 11 months from July 2005 to may 2006.

Complaints register

Complaints (and compliments) are recorded by the networks on the MoT's Customer Feedback Management System (CFMS).[29] The CFMS is an internet-based system that allows taxi customers to provide direct feedback on their response to the taxi services they experience (Figure A3.1).

Figure A3.1 Summary of complaints registered with MoT (2005/06)[30,31]



29 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.

30 July 2005 to May 2006. The Tribunal does not present data of previous years as it does not have a consistent time series of complaints.

31 Source: Ministry of Transport.

ATTACHMENT 4 WRITTEN SUBMISSIONS RECEIVED

The following provided written submissions to the review:

Blue Mountains Commuter Council and Transport Users Association
Campbell, Taryn
Council of Social Service in NSW
Meadows, Ian
NSW Taxi Council (2)
NSW Taxi Drivers Association
Physical Disability Council of NSW
Portnoy, Alex
Tourism and Transport Forum
Transport Workers Union of NSW

The following provided written submissions to the Issues Paper:

Blue Mountains Commuter Council and Transport Users Association
Council of Social Service in NSW
NSW Taxi Council
NSW Taxi Drivers Association

ATTACHMENT 5 OVERVIEW OF ISSUES TO BE CONSIDERED PRIOR TO SETTING TAXI FARES IN 2007

This attachment sets out the issues raised in the Tribunal's June 2006 Issues Paper that it intends to consider prior to its next review of taxi fares. The Tribunal invites all interested parties to consider these issues, and provide submissions to it by 20 October 2006.

The Tribunal has identified four possible alternatives to the current Taxi Cost Index that could be used to adjust taxi fares for increases in costs, including using:

- the Consumer Price Index (CPI)
- the transportation or private motoring components of the CPI
- a wage price index
- a composite increase of Australian Bureau of Statistics (ABS) inflators, such as the CPI and wage price index.

Each of these alternatives, including its advantages and disadvantages, is described below. This Attachment also explains the need to account for increases in productivity when adjusting taxi fares, and discusses several approaches for doing this.

Consumer Price Index

One of the alternatives to using an industry-specific cost index is to adjust taxi fares each year in line with the movement in the Consumer Price Index (CPI). The movement in the CPI provides an indication of the increase in prices in the economy as a whole. Specifically, it measures the rise in the prices of a basket of goods typically purchased by households, including food, alcohol and tobacco, clothing and footwear, housing, furniture and household goods, health services, transportation, communication, recreation, education and financial and insurance services.

Movements in the CPI over the past six years

Since 2000, the CPI has risen by a total of 21.4 per cent (Table A5.1).

Table A5.1 Movement in the CPI[32] since 2000

Year to 31 March	%
2006	2.8
2005	2.4
2004	2.4
2003	3.1
2002	3.6
2001	5.3

32 Measured using the average of four quarters on four quarters for years ending in March, for the eight capital cities.

Advantages and disadvantages of adjusting taxi fares by the CPI

The Tribunal has identified two advantages of changing taxi fares in line with the change in the CPI. The first is that the CPI is independently calculated and published, and is widely available on a timely basis. As a consequence, the use of this index would be straightforward, and regulatory costs and information requirements would be minimal. In addition, the process for calculating fare changes would be transparent and simple. The second advantage is that the CPI takes economy-wide productivity gains into account.

However, the Tribunal has also identified several disadvantages of using this approach, including that:

- The components of the CPI do not closely mirror the cost structure of the taxi industry. The CPI is based on a basket of goods purchased by households and thus cannot capture the movement in cost items not purchased by households, such as network fees.
- The CPI does not directly include changes in the cost of labour, which comprises a significant portion of costs in the taxi industry.
- The CPI does not take account of industry-specific productivity gains.

The Tribunal seeks comments on:

* ***The advantages and disadvantages of using the movement in the CPI to adjust taxi fares each year, including those identified by the Tribunal and others identified by stakeholders.***
* ***What should be the adjustment to the CPI for industry specific productivity gains?***

The transportation and private motoring components of the CPI

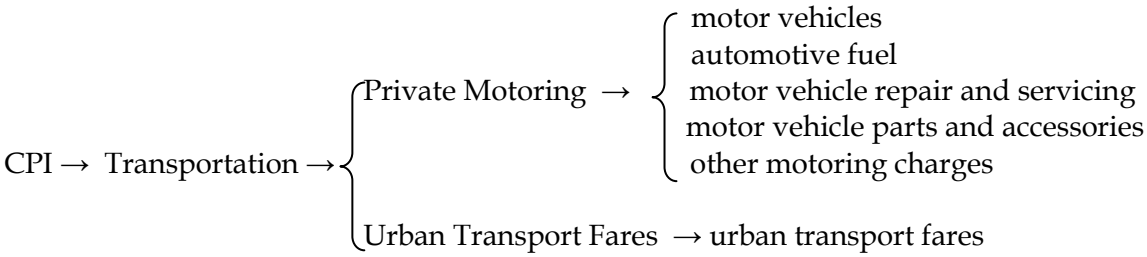
A second alternative would be to adjust taxi fares each year in line with either the movement in the transportation group of the CPI, or the private motoring sub-group of this transportation group. The transportation group accounts for 13.1 per cent of the CPI. The private motoring sub-group comprises 94.4 per cent of the transportation group.

The private motoring sub-group includes the following components:

- Motor vehicles (39.6 per cent). This component includes the movement in the price of new vehicles purchased by households and a small number of used vehicles purchased by households from businesses/government in addition to vehicle hire.
- Automotive fuel (30.5 per cent). This component includes the movement in the price of fuels – predominantly unleaded petrol but also diesel and LPG, to the degree that they are purchased by households.
- Motor vehicle repair and servicing (16.1 per cent). This includes the movement in the price of the labour and parts involved in servicing a vehicle, including smash repairs.
- Motor vehicle parts and accessories (5.5 per cent). This refers to oil and lubricants, car batteries, tyres and any parts purchased outside of a service.
- Other motoring charges (8.2 per cent). This includes vehicle registration, drivers licence renewal, parking fees, driving lessons and tolls.

The remaining 5.6 per cent of the transportation group comprises urban transport fares, including the movement in urban train, bus, ferry, tram and taxi fares.

These elements of the CPI can be represented diagrammatically as follows:



The Tribunal notes that the Western Australian Government has made annual adjustments to taxi fares based on the movement in the private motoring sub-group of the CPI for Perth since 2004. It has stated that:

> …the Private Motoring sub-group takes account of specific costs associated with the taxi industry such as fuel, vehicle costs, insurance costs, and the cost of repairs and parts. For example, where there are significant increases in the cost of fuel then this will have a significant impact on the movement in the Private Motoring sub-group. This is because fuel is a substantial component of the Private Motoring sub-group. This is not the case in the CPI, in that a major increase in the fuel price could occur but the CPI may in fact move relatively little, if at all, due to that increase. This is a significant advantage of the Private Motoring sub-group.[33].

Movements in the transportation and private motoring components of the CPI over the past six years

Since 2000, the transportation group has risen 20.6 per cent and the private motoring sub-group has risen 20.1 per cent (Table A5.2).

Table A5.2 Movement in the transportation group and private motoring sub-group of the CPI over the past six years[34]

Year to 31 March	Transportation group %	Private Motoring sub-group %
2006	4.8	5.0
2005	3.4	3.5
2004	0.2	-0.1
2003	2.3	2.4
2002	1.6	1.3
2001	6.8	6.7

33 *Report on the Review of the Operation and Regulatory Structure of the Taxi Industry in Regional Western Australia*, July 2004, p 29.

34 Measured using the average of four quarters on four quarters for years ending in March, for the eight capital cities.

Advantages and disadvantages of using the Transportation and Private Motoring components of the CPI

The Tribunal has identified three advantages of changing taxi fares in line with the change in the transportation group or the private motoring sub-group of the CPI, including that:

- Both the transportation group and private motoring sub-group of the CPI are independently calculated and published, and are widely available on a timely basis. As a consequence, the use of either of these indices would be straightforward, and the regulatory costs and information requirements would be minimal. In addition, the process for calculating fare changes would be transparent and simple.
- Both the transportation group and the private motoring sub-group of the CPI capture many of the items that make up the taxi industry's costs such as fuel, vehicles and repairs and servicing, so they better reflect the taxi industry's costs than the CPI.
- The fact that the transportation group includes urban transport fares may make it a closer fit to taxi costs to the extent that fares for other modes of transport are set to recover any cost increases incurred, assuming some cost elements are common across modes of public transport (for example, labour, fuel, and capital cost of vehicles).

The Tribunal has also identified a range of disadvantages, including that:

- The fact that the transportation group includes urban transport fares, including taxi fares, creates some degree of circularity.
- There is no direct allowance for the change in labour costs, which is the largest single cost driver in the taxi industry.
- Although many items included in both the transportation group and private motoring sub-group are common to the taxi industry, the nature and weighting of the items are different to those incurred by the taxi industry. For example:
    - The bulk of private motorists use unleaded petrol, while most taxis operate on LPG. Historical fuel price data collected by FuelTRAC suggest that trends in the prices of petrol and LPG do not always coincide, and at times their prices can move in opposite directions. FuelTRAC's data indicates that for the first half of 2004 LPG prices steadily declined, while the price of unleaded petrol rose by nearly 10 cents per litre. During its 2004 review of taxi fares, the ACT regulator, the Independent Competition and Regulatory Commission (ICRC) also identified this as a disadvantage of using the movement in the private motoring sub-group as a basis for setting taxi fares setting. It stated that in measuring changes in the cost of fuel, this sub-group "captures mainly the change in costs of leaded and unleaded petrol rather than LPG, and the correlation between LPG and ULP prices is minimal. Fuel has a sizeable weighting within the Private Motoring sub-group, making this index more variable".[35]
    - The motor vehicles included in the private motoring sub-group are predominantly new vehicles, while a significant proportion of taxis are purchased as second-hand vehicles.
    - Whereas householders usually purchase new vehicles, taxis are typically leased. This means that the private motoring sub-group so does not reflect changes in interest paid on leases.

35 ICRC Draft Determination 2004, p 47.

- Even when the expenses are common to taxis and private vehicles, the weightings of the transportation group and private motoring sub-group do not reflect the weightings that would apply to the taxi industry. For example, a green slip for a taxi costs approximately 10 times more than a green slip for a private motor vehicle.
- There are a large number of costs faced by the taxi industry that are not captured in the transportation group or private motoring sub-group, including taxi plate lease fees, network fees, uniform costs and comprehensive car insurance.
- Taxis travel far greater distances than most private vehicles, so that variable costs such as fuel and tyres would be understated in the private motoring sub-group.

- Both the transportation group and private motoring sub-group fluctuate from year to year, so its use for adjusting taxi fares would result in less certain outcomes than other approaches.

The Tribunal seeks comments on:

* ***The advantages and disadvantages of adjusting taxi fares in line with the movement in the transportation group or the private motoring sub-group of the CPI, including those identified by the Tribunal and others identified by stakeholders.***
* ***What should be the adjustment to the transportation or private motoring components of the CPI for taxi industry productivity gains?***

Wage Price Index

Labour is a significant input to the taxi industry, and labour-related costs comprise a varying proportion of total taxi costs, depending on whether it is an operator-driver or bailee-driver operation, and the scale of the business (single taxi or multi taxi fleet).

Two ABS measures of changes in labour costs are available. The first is the Wage Price Index (WPI), which is designed to measure the change over time in the price of labour. The second is Average Weekly Earnings (AWE), which is an estimate of average weekly ordinary time earnings and average weekly total earnings for full-time adult employees.

The ABS advocates the use of the WPI as the best measure of wage cost movements. It does not recommend using the change in Average Weekly Earnings is for this purpose as it is affected by changes in hours worked and the composition of the workforce. In particular, the ABS states that:

> Period-to-period movements for the Average Weekly Earnings (AWE) series are not comparable with those for the Wage Price Index (WPI) (previously known as the Wage Cost Index). It is important to recognise that the two series have different purposes and concepts and use different sample selection and estimation methodologies.
>
> The AWE survey is designed to measure the level of average earnings in Australia at a point in time. It does this by collecting information from businesses on their number of employees and their total gross weekly earnings for a specific pay period each quarter. The WPI is a price index designed to measure the change over time in the price of labour. It does this by pricing specific jobs, in terms of wage and salary payments to employees occupying the jobs, and collecting information from businesses each quarter on price changes in those jobs. It is unaffected by changes in the quality and quantity of labour purchased by employers.

> In addition to changes in the price of labour, AWE estimates are affected by changes in hours worked and by compositional changes in the employee workforce. The WPI prices a fixed quantum of labour services for each job, and hence changes to base earnings resulting from increases in hours worked or from changes in the composition of the employee workforce will not be reflected in the index. [36]

Thus, the WPI is an input price index that measures changes over time in the prices paid by businesses for a fixed quantity and quality of labour input. It does not take the output of this labour into account, and therefore does not make allowances for changes in the level of productivity.

Given the importance of labour as a cost driver in the taxi industry, the Tribunal sees merit in considering using changes in the WPI to adjust taxi fares.

Movement in the Wage Price Index over the past six years

Since 2000 the WPI has risen by a total 23.5 per cent (Table A5.3).

Table A5.3 The movement in the WPI since 2000

Year to 31 March	WPI %
2006	4.1
2005	3.6
2004	3.6
2003	3.4
2002	3.4
2001	3.3

Advantages and disadvantages of using the Wage Price Index

The Tribunal has identified a range of advantages and disadvantages of using the movement in the WPI as the basis for adjusting taxi fares. The advantages include that:

- The WPI is independently calculated and published, and is widely available on a timely basis. As a consequence, its use would be straightforward, and regulatory costs and information requirements would be minimal. In addition, the process for calculating fare changes would be transparent and simple.
- The WPI recognises that labour is a key cost driver in the taxi industry.

The disadvantages are that the WPI focuses on only one input to the taxi industry, and does not make any allowance for productivity gains.

36 Australian Bureau of Statistics, Cat. No. 6302.0, Average Weekly Earnings, Australia.

The Tribunal seeks comments on:

* *The advantages and disadvantages o fusing the movement in the WPI to adjust taxi fares, including those identified by the Tribunal and others identified by stakeholders.*
* *What should be the adjustment to the WPI for productivity gains?*

Composite increase of ABS inflators

The final option the Tribunal has identified is to use a composite increase made up of ABS inflators, such as a weighted increase based on the CPI (or one of its groups/sub-groups) and the WPI. Given the lack of concrete evidence about the composition of costs in the taxi industry, one approach would be to give equal weighting to the CPI and the WPI. The composite increase would be:

$$FareRise = \left[\left(1 + \left(0.5 \times \Delta CPI\right)\right) \times \left(1 + \left(0.5 \times \Delta WPI\right)\right)\right] - 1$$

Alternatively, the transportation group or private motoring sub-group of the CPI could be substituted for the CPI.

The ICRC also considered using a composite increase during its 2004 review of ACT taxi fares. It stated that:

> Over the medium to long term, a well-designed composite index can broadly track the results of indices such as the WCI [Weighted Cost Index, a cost index used by ICRC in determining taxi fares], but with less subjectivity and lower resource requirements for calculation. In addition, a productivity gain (or X-factor) could be inserted into the index to provide incentives to improve efficiency.[37]

Movements over the past six years

Since 2000, an index based on 50 per cent CPI and 50 per cent WPI has increased by 22.6 per cent. An index based on 50 per cent transportation group of the CPI and 50 per cent WPI has increased by 22.3 per cent. An index based on 50 percent private motoring sub-group of the CPI and 50 per cent WPI has risen by 22.0 per cent (Table A5.4).[38]

Table A5.4 Movement in composite indices since 2000

Year to 31 March	CPI/WPI %	Transportation group/WPI %	Private motoring sub-group/WPI %
2006	3.5	4.5	4.6
2005	3.1	3.6	3.6
2004	3.0	1.9	1.8
2003	3.3	2.9	2.9
2002	3.6	2.5	2.4
2001	4.3	5.1	5.0

37 ICRC Draft Determination 2004, p 48.

38 The impact of the annual percentage increases must be multiplied rather than added, to allow for the compounding effect. For example:

Cumulative % increase = [(1 + % increase in year 1) × (1 + % increase in year 2)] - 1

Advantages and disadvantages of composite change

The Tribunal has identified four advantages of using a composite index as the basis for adjusting taxi fares, including that:

- The proposed indices are independently calculated and published, and are widely available on a timely basis. As a consequence, their use would be straightforward, and regulatory costs and information requirements would be minimal. The process for calculating fare changes would be transparent and simple.
- The use of a composite index would better reflect taxi industry costs than the use of either the CPI or WPI alone.
- A composite index would take account of economy-wide productivity in the CPI component, but would still allow for incremental taxi industry productivity to be allowed for separately.

The Tribunal has identified one disadvantage of this approach – that is that it does not make specific allowances for costs unique to the taxi industry.

The Tribunal seeks comments on:

* ***The advantages and disadvantages of the use of the movement in a composite index in setting taxi fares, including those identified by the Tribunal and others identified by stakeholders.***
* ***Which of the three options for the CPI component of a composite index would be most appropriate (ie, the CPI, transportation group or the private motoring sub-group)?***
* ***What weighting should be given to the labour component and the CPI-based component?***
* ***What should be the adjustment to a composite index for productivity gains?***

Comparing the different approaches with the current approach

To assist stakeholders to compare the current approach with the alternatives set out above, the Tribunal provides the following information.

The current approach

Since 2000, the Taxi Cost Index for urban areas that the Tribunal has used as the basis of its recommendations has increased by 24.8 per cent, while the index for country areas has increased by 23.5 per cent (Table A5.5).

Table A5.5 Movement in Tribunal amended Taxi Cost Indices since 2000

Year to 31 March	Urban %	Country %
2006	4.0	3.0
2005	2.9	3.5
2004	2.3	1.8
2003	4.7	5.1
2002	4.6	4.0
2001	4.1	4.2

Advantages and disadvantages of using the current approach

The Tribunal has identified several advantages of continuing to use an industry-specific cost index approach. These include that:

- This approach has been used for the past five taxi fare reviews conducted by the Tribunal (and for earlier reviews conducted by MoT), and therefore is well understood by stakeholders. Continuing to use this approach would avoid the need for stakeholders to come to grips with a new approach.
- The existing Taxi Cost Index provides a breakdown of cost increases incurred by operators versus drivers, and thus assists the Industrial Relations Commission in determining maximum bailee payments.
- As an industry-specific cost index, it captures movements in the cost of items peculiar to the taxi industry, such as network fees and plate lease fees.

The Tribunal has also identified a range of disadvantages associated with continuing to use the current Taxi Cost Indices or another industry-specific cost index. These include that:

- The use of an industry-specific cost index is time-consuming and costly for stakeholders, as it requires them to provide a significant amount of information to calculate the movement in the index on an annual basis.
- It is unclear how accurately the current indices reflect the industry's cost structure, as a 'benchmark taxi' has not been identified. While most operators operate only a single taxi, a significant number operate larger fleets of taxis. The index does not take into account possible economies of scale resulting from these different business structures.
- Several of the cost items included in the current indices appear to be over-represented in the index weightings, including uniforms and vehicle maintenance costs. The Tribunal recognises that this concern could be overcome by regular, thorough surveys of the index, but it considers that this would be costly and intrusive on taxi industry stakeholders.
- The value of many of the cost items within the current indices has not been calculated on an arm's length basis. In particular, the Tribunal notes that the NSW Taxi Council provides data on changes in the value of the components of the indices, but that entities associated with the NSW Taxi Council provide many of the services associated with these components, including radio booking/network services, insurance brokers, smash repair services, finance for taxi vehicles, and leasing services for taxi plates. Thus the approach relies heavily on data about changes in costs provided from a few stakeholders who, it could be argued, have an interest in inflating these costs. The Transport Workers' Union also raised this concern in its submission, stating that:

  > It is the Union's respectful submission that the role of partisan bodies such as the Taxi Council and the TWU is to provide advice and counsel on matters of their interest. Neither organisations' submissions should be used by the Tribunal as 'the best available evidence' to solely base its recommendations from.[39]

- The current cost indices do not adequately take into account appropriate rewards for risks taken in the industry. While the indices include as a cost item driver and operator 'salary equivalent', it does not take into account the revenues earned and therefore

[39] TWU submission to the 2006 Review of Taxi Fares, p 4.

does not explicitly differentiate the profit component and the labour component of costs.

- The industry-specific cost index approach does not take into account productivity gains within the taxi industry.

The Tribunal seeks comments on:

* *The advantages and disadvantages of continuing to use an industry-specific taxi cost index, including those identified by the Tribunal and others identified by stakeholders.*

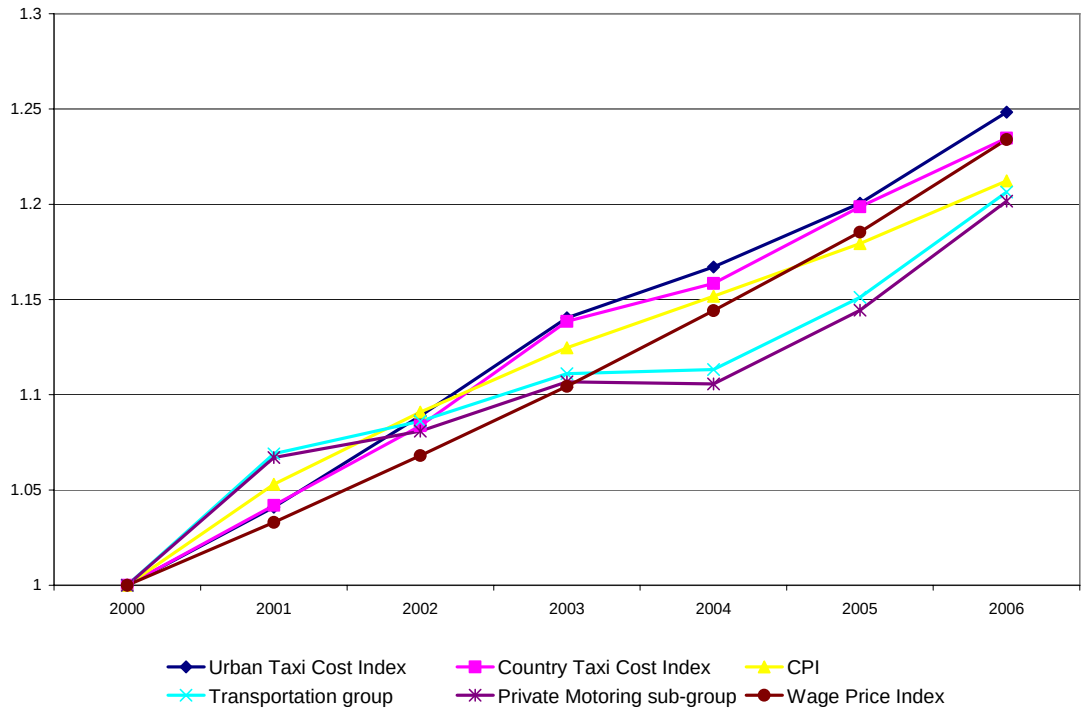
The Tribunal also seeks comments on:

* *How to define a benchmark taxi?*
* *How to measure the costs for that benchmark taxi, including how to account for economies of scale?*
* *How frequently the amount of each component should be assessed, in order to ensure the correct weightings are used?*
* *What should be the adjustment to the Taxi Cost Index for productivity gains?*

Comparing the effect of the different approaches

The Tribunal has calculated the cumulative changes in taxi fares that would have occurred (excluding adjustments for improvements in productivity) if each of the alternative approaches had been used in past reviews. This analysis indicates that the differences between fare changes under each of the approaches are not significant (Figure A5.1). However, the information and time requirements for the different approaches – both for industry participants and for the Tribunal – would have varied considerably.

Figure A5.1 Cumulative changes in taxi fares that would have occurred under alternative approaches



By 2006, the following increases, excluding productivity, would have occurred:

Table A5.6 Cumulative change in taxi fares that would have occurred under each alternative approach

Approach	Cumulative increase to 2006
Tribunal's modified Urban Taxi Cost Index	24.8 %
Tribunal's modified Country Taxi Cost Index	23.5 %
CPI	21.4 %
CPI – transportation group	20.6 %
CPI – private motoring sub-group	20.1 %
Wage Price Index	23.5 %
Composite increase – CPI/WPI	22.6 %
Composite increase – transportation/WPI	22.3 %
Composite increase - private motoring/WPI	22.0 %

Taking productivity gains into account

The Tribunal recognises that when taking productivity into account under these various alternatives, it will be necessary to apply the X-factor in a way that is consistent with the particular index that is being used. Some indices (such as the Taxi Cost Indices and the Wage Price Index) relate to inputs to production. However, productivity relates to the relationship between outputs and inputs. For these input indices, the Tribunal should use its estimate of the scope for productivity gains in the taxi industry to calculate the X-factor.

Other indices (such as the Consumer Price Index) relate to the outputs from production. These indices already incorporate the average productivity gain for the economy as a whole. For these indices, the Tribunal should calculate an X-factor that represents the extent to which productivity gains for the taxi industry are expected to exceed the average gains for the economy as a whole.

Possible approaches for determining a X-factor to account for productivity gains

The Tribunal has identified three possible approaches that could be used to determine an X-factor to account for productivity gains within the taxi industry when setting taxi fares. These approaches include:

- Using transport industry data available from the ABS.
- Using economy-wide data available from the ABS.
- Making a conservative estimate.

Each of these options is outlined below.

Using transport industry data from the ABS

The ABS collects and publishes industry-sector data on gross value added at constant prices, and on the number of employees. However, it does not collect data specifically on the passenger transport industry. The industry sector most relevant to the taxi industry is Transport and Storage. This sector includes business units that are engaged in providing:

- passenger or freight transport by road, rail, water or air
- terminal facilities for passengers or freight
- services related to transport such as car parking, stevedoring, harbour services, navigation services, airport operation or space port operation
- booking, travel, freight forwarding, crating or customs agency services
- storage facilities.

It also includes business units that are mainly engaged in operating pipelines for the transportation of oil, gas, etc, on a contract or fee basis.

The Transport and Storage sector data indicates that in 2004/05, gross value added per employee (a proxy for labour productivity) increased by 1.2 per cent in the sector.[40] Over the past six years, this measure increased by an annual average of 4.0 per cent (largely due to 8 per cent increases in each of 2001/02 and 2002/03). Over the past two decades, it increased by an annual average of 3.5 per cent, compared to an annual average of 1.4 per cent in the economy as a whole.

Much of this productivity growth is likely to have come from the microeconomic reforms that have driven productivity gains in freight handling at ports and airports, and on roads and railways. (For example, the number of containers unloaded per hour at main eastern seaboard ports has more than doubled since 1998.) However, these gains are of no obvious relevance to productivity in the passenger transport industry.

Using economy-wide data from the ABS

The ABS also collects and publishes data on economy-wide labour productivity. One measure of this productivity is the rise in the volume of gross value added relative to total hours worked. (This is the widely accepted definition of labour productivity at the national level.) Using this measure, labour productivity has increased at an average annual rate of 1.48 per cent over the past six years.[41]

Another broad measure of labour productivity is the trend GDP per hour worked. Using this measure, over the last five years labour productivity within the market sector of the economy increased by an annual average of 2.0 per cent. Over the past two decades, labour productivity in the whole economy grew by an annual average of 1.6 per cent, and in the market sector, by an annual average of 2.1 per cent.

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40 ABS, *Australian National Accounts National Income, Expenditure and Product, December 2005;* ABS Labour Force, Australia, December 2005.

41 The average of the annual increases in GDP per hour worked from 2000/01 to 2004/05. Source: ABS Australian National Accounts National Income, Expenditure and Product, June Quarter 2005.

Making a conservative estimate

Since there is no direct measure for productivity gains in the NSW taxi industry, and given the uncertainty about how the above measures could be applied to the taxi industry, a more conservative approach would be to estimate the potential for the taxi industry to achieve productivity gains above the economy-wide gains. The Tribunal considers that an estimate in the order of 1 per cent would be appropriate, which would mean adopting an X-factor of 1 per cent.

This approach and X-factor would be consistent with the Tribunal's recommendation for private buses last year,[42] and with the approach and X-factor adopted by the Victorian regulator in its 2005 review of taxi fares (see below).

Advantages and disadvantages of adopting a productivity adjustment

The Tribunal has identified two advantages of incorporating a productivity adjustment into the approach for setting taxi fares, including that:

- An appropriate X-factor that measures productivity will provide incentives to participants in the taxi industry to improve their productivity, as those who outperform the benchmark productivity allowance will benefit most.
- An appropriate X-factor will reduce the impact of fare rises on passengers.

The Tribunal has identified one disadvantage, which is that if the X-factor were set too high, it may inappropriately reduce the level of returns to industry participants.

The Tribunal welcomes comments on:

* ***The advantages and disadvantages of including an X-factor that accounts for productivity gains in setting taxi fares, including those identified by the Tribunal and others identified by stakeholders.***
* ***If such an X-factor is appropriate, how should the value of the X-factor be determined?***

Collection of additional information

Simply increasing the current taxi fares using any of the methodologies discussed in this issues paper implies that the current level of fares precisely reflects the efficient costs of providing taxi services, including providing industry participants with appropriate returns for the risks they bear. The Tribunal cannot confidently accept this proposition. Rather, it considers that additional independent information about costs, revenues and profitability within the taxi industry needs to be collected to ensure that the prices for taxi services matches the costs that are borne by participants in the industry.

The Tribunal seeks comments on appropriate independent sources of information on costs, revenue and profitability within the taxi industry.

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42 In its 2005 review of non-metropolitan private bus fares the Tribunal adopted a 1 per cent productivity growth assumption which it applied to the labour component of the Bus Industry Cost Index, reducing the rise in that index by 0.5 percentage points.

Need for a regular review of the form of regulation

The Tribunal considers that it needs to undertake regular reviews of the form of regulation used to recommend taxi fares. These reviews should include consideration of the most relevant index, and the methodology for calculating that index.

These reviews could occur every third or fifth year, reflecting regulatory practice in setting medium to long-term price paths in other regulated businesses.

The Tribunal seeks comments on the appropriate frequency of these reviews.

Elements of the 'average fare'

Whichever index is used to measure the change in the costs of providing taxi services, under the current approach this change is applied to an 'average fare' that reflects the different components of taxi fares. However, since the Tribunal began reviewing the taxi industry in 2001, three different formulations of the 'average fare' have been used for urban areas (see the notes to Table 2.1). Changes have been made to the average length of a trip, and to the proportion of trips that attract a booking fee, in response to submissions by stakeholders.

While the average urban fare increased by 20.6 per cent between 2000 and 2005,[43] the flagfall and radio booking fee – the fixed elements – rose by 19.1 per cent and 27.3 per cent respectively. The distance rate and waiting time rate – the variable elements – increased by 22.7 per cent and 11.0 per cent respectively.

The assumptions used to calculate an average rural fare have not changed. This fare increased by 19.8 per cent between 2000 and 2005, with flagfall rising 15.8 per cent, the radio booking fee rising 38.5 per cent, the distance rate increasing 25.2 per cent, and the waiting time rate rising 11.0 per cent.

The Tribunal considers that the 'average fare' approach may not be the best approach for regulating taxi fares. An alternative approach would be to use a 'Master Fare Schedule', as the Tribunal uses in regulating fares for other modes of transport. Under a Master Fare Schedule, the overall percentage fare rise recommended by the Tribunal is applied to each of the fare components, rather than to an 'average fare' within which some components are increased more than others.

Because of the limitations of the meters currently installed in NSW taxis, the flagfall and radio booking fee components of taxi fares must be changed in 5 cent increments. This means that it may not be possible to increase each component by the exact overall percentage fare rise recommended by the Tribunal. Instead, particular components may need to be increased by slightly more or less than the overall fare rise recommended in a given year.

To ensure that the price of some components doesn't increase faster than others, the Master Fare Schedule would maintain a record of what each fare component was prior to rounding to the nearest 5 cents. The fare increase recommended in the subsequent year would then be applied to this unrounded price, so that 'rounding up' the price of a component year after year does not cause it to increase out of step with the other fare components. In this way, a

[43] Calculated using 2005 assumptions regarding waiting time, length of trip, and proportion of journeys that attract a booking fee.

Master Fare Schedule would maintain the existing balance between the different components of taxi fares.

The Tribunal seeks comments on:

- ***The current balance between the fixed and variable elements that are used to calculate the average fare to which the index is applied.***
- ***Whether there would be value in adopting a Master Fare Schedule in place of the 'average fare' concept.***