DISCUSSION PAPER 2

Treatment of driver labour costs

Taxi Roundtable - 29 February 2012

Driver labour costs are the largest component of the taxi cost indices (TCIs). Notional driver wages are currently weighted at 39.1% of total cost for urban taxis, and 42.2% for country taxis. Each year notional driver wage costs are inflated by the Australian Bureau of Statistics' wage price index (WPI).

In addition to notional wages, permanent bailee drivers (drivers working more than 60 hours per week) in Sydney are entitled to paid sick leave and paid annual leave at rates determined by the Industrial Relations Commission. These driver entitlements are currently included in the urban TCI as separate additional cost components. There are no legal obligations on operators to pay entitlements for non-Sydney drivers or casual bailee drivers in Sydney, however the TCIs include equivalent notional self-funded entitlements for non-Sydney drivers and Sydney casual bailees. Total entitlements are weighted at 5.9% for urban taxis and 6.3% for country taxis and are inflated each year by WPI.

The TCIs also includes cost components for driver superannuation, weighted at 4% for urban drivers, and 4.4% for country drivers. Currently there is no legal obligation on operators to pay drivers superannuation.

CIE survey results

CIE's survey results suggest that the driver labour costs of providing taxi services are considerably lower than currently accounted for in the TCIs, as shown in Table 1. The results suggest that total driver labour costs currently comprise around 40% of total costs, compared to currently being weighted at around 50% in the TCI.

The survey also showed that only 20% of Sydney Metropolitan operators paid entitlements, and 3% of drivers received entitlements. However, anecdotal evidence suggests that entitlements are accounted for through discounted pay-ins to operators, rather than through explicit payments. The CIE survey results for total driver costs capture any such discounting.

Table 1 Total driver labour costs for standard taxis

Taxi type	Current index (2011)				CIE survey (2011)		
	Driver labour costs per taxi	Entitlem-ents and superann-uation per taxi	Total costs per taxi	Proportion of total costs (%)	Total driver labour costs per taxi	Total costs per taxi	Proportion of total costs (%)[a]
Urban	$90,921	$23,048	$232,713	49.0	$58,016	$144,690	40.1
Country	$92,320	$23,403	$218,735	52.9	$56,432	$134,648	41.9

a Using the CIE's costs for other components.

Source: CIE, *Reweighting of the taxi cost index – draft report*, pp 49, 56; IPART, *Taxi Cost Index spreadsheet model 2011*.

The CIE have also estimated hourly driver earnings based on average number and duration of driver shifts, and average driver net earnings[1] for each shift. The CIE calculated that drivers of standard taxis earn between $7.50 per hour on a Monday night for urban drivers, and $16.70 per hour for country drivers on a Saturday night. The average hourly rate across all shifts is $10.68 an hour for urban drivers, and $11.85 for country drivers.

These hourly rates are significantly lower than the hourly rates of $19.42 underpinning the driver labour costs in the current TCIs.[2] These rates are based on the rate for leave entitlements specified in the Industrial Relations Commission's Contract Determination.[3]

However, driver earnings are an unregulated cost of providing taxi service. IPART does not determine the split of revenue between drivers, operators, networks, and licence plate holders. Drivers are not employees, they are bailee, and as such do not have the protection of a minimum wage.

Options for weighting driver labour costs in the TCIs

In the issues paper for this review we canvassed 2 options:

- Weight drivers' notional wages using the CIE survey results.
- Weight drivers' notional wages using an appropriate proxy.

It is important that the costs of driver labour (and other costs) in the TCIs reflect the actual costs of providing taxi services so that we recommend changes in fares that are based on changes in cost. While many stakeholders are concerned that drivers' earnings are too low, we note that increasing driver labour costs as a proportion of total costs in the TCIs would not mean that drivers would earn more. There are 2 reasons for this:

1 Net earnings are equal to total fare takings less driver costs (eg, for urban drivers the costs are pay-in, fuel costs and cleaning costs).
2 This is equivalent to $16.95 updated for the change in WPI.
3 IPART, *2008 Review of Taxi Fares in NSW – Final Report and Recommendations*, June 2008, p 19.

- As discussed in the overview paper, increasing the weighting of one cost item in the TCIs doesn't necessarily lead to a higher fare change.
- IPART does not determine the split of revenue between drivers, operators, networks, and licence plate holders. The net earnings of taxi drivers depend on the demand and supply of taxi drivers, the willingness of drivers to work in the industry and the availability of alternative work options.

This paper only deals with the estimation of driver labour costs within the TCIs. It does not address the question of whether current fare levels are appropriate, which is dealt with in Discussion Paper 3.

Weight drivers' labour costs using the CIE survey results

CIE considers that the survey data relating to driver takings is sufficiently robust to accurately estimate driver costs. However, the CIE driver labour costs outcomes are significantly lower than the minimum wage when converted to average hourly rates. If these rates are assumed to include legal entitlements, the average hourly rate falls even further for urban drivers. These results raise questions about the reliability of CIE's survey data.

We note that while CIE's estimates are based on a large sample of respondents, and the confidence intervals are narrow yet the survey responses are difficult to independently verify.

Weight drivers' labour costs using an appropriate proxy

We have taken the opportunity cost approach to drivers' labour to estimate labour costs because we lacked accurate information about actual costs. We used the rate specified in the Industrial Relations Commission's Contract Determination for leave entitlements to value the opportunity costs of drivers' time.

In submission to this review stakeholders have suggested a range of alternative proxies for driver labour costs, including:

- The taxi downtime rate in the Contract Determination (currently $20.16 per hour).[4] This is the rate at which a bailor/operator compensates a bailee/driver who is deprived by circumstances of the use of the vehicle during the period of bailment for his loss of earnings.[5]
- The Grade 2 Classification for the driver of a motor vehicle, limousine or hire car capable of carrying less than eight persons and used for hire or reward but excluding motor vehicles used for private purposes under the *Passenger Vehicle Transportation Award 2010* (currently $17.13 per hour).[6]

4 Taxi Industry (Contract Drivers) Contract Determination, 1984 – Part B Table 2, hourly rate for incomplete shift.
5 ATDA submission, p 19.
6 The Award provides for a minimum wage of $651.30 per week, based on a 38 hour week.

- A part-time bus driver's wage ($27.04 per hour).

Weighting drivers notional wages using a proxy is consistent with the CIE's treatment of operator labour costs. The CIE were not able to reliably estimate operator labour costs from the survey data, due to the wide range of cost estimates. Therefore, CIE proposed the market wage for an office manager as a proxy for operator administration costs.

How should driver labour costs be inflated?

Over the last 5 years, we have used the ABS's WPI to inflate the notional driver wages and superannuation components of the TCIs. However, the survey data suggests that drivers' earnings have not increased at this rate.

Inflators used to adjust the TCIs should accurately reflect the changes in the efficient costs of providing taxi services, to ensure that the taxi industry is able to cover changes to the efficient costs, and that passengers are paying an efficient price. Continuing to use WPI is likely to overstate the increases in driver labour costs, and therefore fares will be higher than the efficient level.

However, we are not aware of transparent sources of data which accurately report changes in driver costs. The main advantage of continuing to use WPI is that it is verifiable and easy to understand. We also note that WPI has historically been one of the least volatile inflators. Because driver costs are the highest cost component of the TCIs, applying a stable inflator should reduce the likelihood of large fluctuations in taxi fares.

Discussion questions for roundtable

Question 1

Do CIE's estimates reflect actual costs of drivers' labour?

Question 2

Which alternative measures of drivers' labour most closely reflect drivers' actual labour costs?

Question 3

Are there any accurate and transparent sources of information relating to changes in actual driver labour costs?