

NSW Taxi Council
submission to the
2010 Review of Taxi Fares in NSW

30 April 2010

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1. Introduction

This submission is provided in response to the Transport Discussion Paper issued by IPART during March 2010 regarding the Annual Review of fares and consideration of flat fares between Sydney Airport and Sydney CBD.

The submission is made on behalf of the NSW Taxi Council Ltd. and is structured under headings that set out the questions listed in the discussion paper followed by additional information provided in response to some issues that were raised during the public hearing held on 12th April 2010.

2. Issues to be addressed from the discussion paper

2.1. Are the indicative increases in fares reasonable given the cost increases faced by the industry?

The NSW Taxi Council has supported the use of cost indices for adjusting taxi fares for many years. This approach has produced outcomes that have been reasonable and well-accepted by the industry and the public in recent years.

The NSW Taxi Council has presented evidence during previous reviews indicating that costs in the industry do not necessarily change at the same rate as the published indicators used as inflators by IPART in the cost indices. For example, insurance is a significant cost to taxi operators and insurance premiums in the taxi industry change in response to the industry's claims history. These movements can easily be counter to or out of proportion with changes in insurance faced by householders or the broader insurance sector.

Notwithstanding differences that may occur between movements in industry costs and the inflators used in the cost index, outcomes seem to have been reasonable in recent years.

The NSW Taxi Council is aware of the impact that regulatory changes will impose on the taxi industry in the year ahead and future years. Changes in costs associated with regulatory requirements are very specific to the taxi industry and will not be accurately represented in economy-wide inflators.

On 1st July 2010, new taxi security system specifications come into effect in New South Wales. Costs associated with upgrading the most recently installed equipment are in the order of \$1000 per taxi-cab, older systems that are not upgradeable will require replacement with equipment that costs at least \$3000 per taxi-cab. Taxi operators will be required to meet the new specifications when vehicles are replaced which is typically every 4 years. Furthermore, as replacement parts are no longer available for some older models of security camera, when breakdowns occur the new higher specification and more expensive equipment must be used for replacement. Hence each operator will be affected at some point during the next few years.

The new specification also requires retrofitting an additional alarm activation switch and this will cost operators approximately \$150.

As these additional costs are significant and will not be captured in the published inflators used to adjust operators' costs in the taxi cost index there are grounds for making a special adjustment to the operator component of the taxi cost index and adjusting taxi fares for the next four years to take this additional mandatory cost into account.

2.2. Is CPI-Sydney and appropriate inflator for the network fee cost component in the Taxi Cost Index? Why or why not?

Historically, network fees have moved in-line with CPI, and during the last five years increases have been less than the change in the CPI. However, past movements may not be indicative of future changes that affect the industry.

The three largest taxi networks in Sydney have recently upgraded or announced upgrades to dispatch equipment. These upgrades will involve many tens of millions of dollars of new investment in equipment at the network and in taxi-cabs. There are also significant costs associated with training staff and taxi drivers and installation and commissioning equipment in every taxi-cab.

Taxi networks in New South Wales are also facing significant increases in labour costs for operating call centres. Increases in labour costs resulting from the introduction of the Private Sector Clerks Award will start to impinge on taxi networks from 1st June 2010. The Award changes will be introduced in stages during a five-year transition period up until 2012. The cost impact on the taxi industry in New South Wales will be industry-specific. Few employers of clerks in other industries are required to provide 24 hours per day, 365 days per year operations with peak periods falling outside normal working hours. The 24-hour operation and timing of peak demand periods for taxi call centres mean the taxi industry will be disproportionately affected by changes to the way penalty rates and shift allowances are calculated under the new award compared to the previous Notional Agreement Preserving a State Award. The wage cost increases imposed on taxi networks in NSW will therefore be significantly higher than average wage cost increases in other industries.

The following table provides a simple comparison for the weekly earnings (base wage + shift allowance) for shift workers under the Notional Agreement Preserving a State Award and the Modern Award. This example is based on a Call Centre shift worker who was a NAPSA Grade 2 Clerk, and who will be classified as a Level 3, Call Centre Customer Contact Officer Grade 2 under the Modern Award.

Type of shift work	Award	Weekly Base wage	Weekly Shift Allowance	Total Wages	Cost Increase %
Rotating Shifts	NAPSA	\$603.82	\$35.05	\$638.87	
Rotating Shifts	Modern Award	\$675.00	\$101.25	\$776.25	21.5%
Permanent Night Shift	NAPSA	\$603.82	\$44.55	\$648.37	
Permanent Night Shift	Modern Award	\$675.00	\$202.5	\$877.50	35.3%

Regulatory Standards applying to the call centre operations of Authorised Taxi Networks mean networks cannot adjust staffing levels in response to cost increases and hence will have no option but to pass on increased costs to taxi operators through higher network fees.

The impact of cost increases caused by these industry-specific factors will be very significant and will not be captured in an inflator based on movements in a basket of goods and services purchased by households such as CPI-Sydney.

Given that data on network fees can be obtained readily, and because the fees are paid by several thousand taxi operators the data is very easily verifiable, the NSW Taxi Council believes there is no justification for using a less representative inflator such as CPI-Sydney to adjust this component of the taxi cost index.

The significance of labour cost increases during the next five years will almost certainly result in network fees increasing at rates higher than Sydney-CPI. If Sydney-CPI is used as an inflator for network fees in the taxi cost index, taxi operators would not be adequately compensated for the increased costs they face. This would have an adverse affect on the industry's viability and levels of service provided to the public.

2.3. Can taxi drivers and operators make gains in productivity? What are the industry specific factors that might affect the scope for productivity improvements in the taxi industry?

The NSW Taxi Council's views on issues surrounding changes in productivity for taxi operators and taxi drivers were presented in a lengthy paper presented to the Tribunal during its 2006 review of the form of regulation of taxi fares.

There is extremely limited scope for taxi operators and drivers to increase productivity because the factors that have the greatest influence on productivity are outside the control of individual drivers and operators.

There are significant factors that serve to reduce productivity for taxi drivers in particular including:

- Increase in traffic congestion;
- Increase in road infrastructure changes;
- Decrease in speed limits;
- Increase in private bookings and hirings;
- Significant increases in the number of hire cars, tourist vehicles, courtesy vehicles etc;
- Increasing number of “free” bus services;
- Removal or reduction in the size of taxi ranks;
- Decrease in access to drop-off and pick-up locations that have occurred; and
- Increases in number of taxi licences issued in Sydney.

The economic downturn during the last 12 months has had a significant and negative impact on productivity as it has resulted in taxi drivers spending longer periods waiting between fares.

In the face of these pressures, it is extremely difficult for taxi drivers and operators to make productivity gains. The above factors tend to dominate changes in productivity and are beyond the control of drivers and operators. Taxi drivers and operators have no control over factors such as pricing signals to help smooth out peaks and troughs in demand as a means of improving productivity.

2.4. Is the current fare structure reasonable? Is there a case for raising some fare components by more than others?

The current fare structure has been in place for many years and is well-accepted by the public and the industry.

Any changes in the fare structure are likely to provide some benefits to some taxi drivers and passengers whilst at the same time disadvantaging other taxi drivers and passengers. It is difficult to assess the impact of changes and to objectively assess the extent of costs and benefits on each group.

Unless it can be demonstrated that a particular group of passengers (or drivers) is currently being disadvantaged then there will be a high degree of uncertainty regarding the efficacy of any gains. For example, it is not clear whether customers who book taxis for short journeys would be willing to pay a higher flag-fall in order to provide a greater incentive to drivers and achieve a higher level of service. It can be argued that a significant number of customers who book taxis for short journeys are people with mobility difficulties (e.g. elderly people who rely on taxis to get from their home to

local shops or medical centres) and who would be very sensitive to any cost increases that disproportionately affected their particular taxi usage patterns.

In the absence of further information on these issues, it is difficult to recommend any significant change in the fare structure.

2.5. Other than the TDC survey, what information is available on average trip distances, waiting time (that is time spent during the trip where the taxi is travelling below 26 Km/hr), the share of trips that are pre-booked and the share of trips undertaken at night?

Currently, such information is not collected or available on an industry-wide or systematic basis.

Authorised network dispatch systems are designed to provide the most efficient levels of service to the public and taxi drivers and to also monitor and report information in accordance with the regulated Key Performance Indicators.

The NSW Taxi Council intends to monitor any opportunities that may arise from new technology to assess the extent of costs associated with establishing systems that could provide further information without compromising the primary functions of dispatch and performance reporting.

2.6. Is there a need for further information to be made available to passengers on the costs of alternative modes of transport to and from Sydney Airport?

The Sydney airport website provides an estimate of taxi fares for return journeys to and from a number of destinations including the Sydney CBD during off-peak periods. The following information has been copied from the website:

Here are some approximate return fares you can expect to pay to and from Sydney Airport. Remember passengers pay for any bridge or road tolls on top of the fare (these fares are in Australian dollars and are based on non-peak traffic conditions):

Rerturn fare to Sydney Airport:

- Sydney City \$50
- North Sydney \$65
- Manly \$103
- Parramatta \$165
- Liverpool \$114
- Cronulla \$89

A \$3.00 airport toll is payable by all passengers taking a taxi from any of Sydney Airport's taxi ranks.

The website also provides comparisons for the cost of return travel to and from the airport for various transport modes including trains, parking, and taxis based on the postcode of origin/destination. Further details can be found at: <https://parking.sydneyairport.com.au/>

All taxis in NSW must display current information about the way taxi fares are calculated.

The only forms of non-booked public transport legally available from the airport are taxis, trains, and route bus services provided by Sydney Buses. Information on the costs of these services is available from information desks and kerbside staff at the airport.

Information on bus and train fares is available by telephoning 131500 or accessing www.131500.com.au.

The cost of pre-booked services provided by Tourist Buses and Hire Cars is unregulated and therefore a matter for individual transport providers.

The manner and extent to which fares charged by various alternate service providers are advertised would seem to be outside the scope of the review of taxi fares.

2.7. Is there any evidence of passengers being overcharged or being taken by indirect routes for journeys to and from Sydney Airport?

The NSW Taxi Council does not have any specific information about this issue; however concerns regarding fares and routes to and from Sydney Airport do not feature strongly among things the public brings to our attention.

We understand the Tribunal has undertaken to ask NSW T&I to interrogate the centralised taxi industry customer feedback management system to measure the number of complaints lodged by customers related to this matter.

2.8. Do the advantages of a flat fare outweigh the disadvantages?

The Tribunal's discussion paper sets out most of the key issues surrounding the potential introduction of flat fares. There are significant disadvantages to be overcome and it was the unanimous opinion of participants at the public hearing that the disadvantages outweigh the advantages.

Many taxi journeys to and from Sydney Airport start or end outside the Sydney CBD. The NSW Taxi Council is not aware of any widespread problem that particularly affects taxi journeys to and from the airport and the CBD so the potential advantages or scope for improvements seem small compared to the problems that would need to be overcome.

The principal advantage would appear to be simplicity for passengers, however the flat fare itself will need to overcome a wide range of complexities affecting the incentives for taxi drivers to provide services and hence the level of service provided to passengers.

It can be argued that taxi-meters are used to provide simplicity and fairness in the way that fares are measured and do in fact provide certainty for passengers and drivers based on regulated fixed, plus time and distance charges.

In summary, complexity surrounding fares to and from the airport which will affect either or both cost to passengers and revenues (hence incentive) for taxi drivers arises from:

- Routing issues:
 - Passengers would most likely prefer to retain the entitlement to choose the route depending on their need for a quicker journey or; a cheaper journey or; a shared journey via one or more other pick-up or drop-off points;
 - Passengers and drivers may currently agree to multiple hire, a flat fare may make fare calculations complex or ambiguous especially if some hirers' destinations are inside and others outside the flat fare zone;
 - Different routes will affect both time and distance taken for the journey and hence will have different impacts on the value of a hiring for the taxi driver;
 - Inclusion or exclusion of road tolls;
 - Inclusion or exclusion of airport passenger toll for journeys from the airport.
- Time of day issues:
 - Different elapsed journey time as a result of changes in traffic congestion and average journey times;
 - Different fares for day and night-time journeys.
- Zone issues:
 - Equity, inconsistency and confusion for passengers and drivers occurring for journeys at or near the boundaries of any defined zone;
 - Variance in time and distance to and from destinations within the flat fare zone;
 - Potential confusion for taxi drivers between a flat fare zone (defined under the Passenger Transport Regulation) and the "Central Sydney Taxi Zone" currently defined in the NSW Road Rules.
- Sustainability and competition issues:
 - In order to maintain high levels of service to the airport during peak periods when taxi drivers may be able to achieve higher earnings elsewhere, flat fares would have to be set at a high level compared to the highest metered fares (e.g. at times of peak congestion) for the same journey;
 - Similar issues arise in relation to distance charges, so the flat fare would need to be based on the metered fare to/from the most distant part of the CBD, e.g. The Rocks.
 - For similar reasons, an amount equivalent to the booking fee would also need to be included in order to not disadvantage passengers who book taxis;
 - The combination of the above means the majority of passengers will be paying a significant premium for the benefit of having a flat fare, otherwise peak period passengers will be disadvantaged by lower service levels;
 - The effect of such a premium would make taxis less cost-competitive compared to alternative forms of transport, including Hire Cars, Tourist Vehicles, Private Vehicles (using airport parking), Train Services and Bus Services. This will affect the viability of taxi services to and from the airport and confer a significant advantage to competing providers.

The range and complexity of issues involved means the introduction of flat fares would most likely result in significant compromises to one or more of the following:

- Simplicity for passengers and taxi drivers;
- Cost for passengers or revenue for taxi drivers;
- Equity for passengers and drivers;
- Competitiveness of taxi services;
- Service levels provided to and from the airport at peak times.

On balance the potential advantages of introducing flat fares to and from Sydney airport at the Central Business District do not outweigh the disadvantages. This is particularly the case in the absence of evidence about the extent of any problems the scheme would be intended to overcome.

2.9. If there was a sufficient need to introduce flat fares, what are the most effective ways of addressing the disadvantages without sacrificing simplicity? In particular:

2.9.1. At what level should the fare be set?

In order for service levels to be maintained during periods of peak congestion and for services to all parts of the CBD, any flat fare would need to be set at or above the metered fare for a journey to and from the most distant part of the CBD at peak times.

If the incentive is not great enough to compensate taxi drivers for the time and distance travelled compared to an equivalent journey elsewhere in the metropolitan area, we would expect fewer drivers would choose to provide services to and from the airport and CBD at these times.

This means that all passengers would be paying a premium fare and the industry would be less able to compete with other transport providers. Alternatively, if fares were not set at a sufficiently high level, passengers travelling at peak times would experience longer delays in obtaining a taxi.

2.9.2. Should the CBD area be broken down into more than one zone?

Differences in the time and distance to and from different parts of the CBD create an issue of equity and incentive for taxi drivers and passengers. If flat fares were introduced, it might be expected that taxi drivers would prefer to service CBD hotels, for example, closest to the airport in both time and distance. This would disadvantage passengers at other locations who would face longer delays in obtaining a taxi.

During busy periods there is a significant difference between the metered fare between Central Station and Circular Quay or the Rocks.

However, the creation of more than one zone would introduce an even higher degree of complexity for passengers and taxi drivers and exacerbate the problems that will arise at or near zone boundaries.

It is probably not practical to introduce sub-zones and, if this is the case, the issues of equity and incentive to service all parts of the zone would remain unresolved.

2.9.3. What geographical boundaries should be used to define the CBD zone? Should it include secondary areas like North Sydney and Kings Cross?

The NSW Taxi Council does not support the introduction of a CBD Zone for taxi fares to and from the airport.

However, if it were to be introduced it may be desirable, for the sake of simplicity and consistency, to adopt the same boundaries as used in the NSW Road Rules to define the Central Sydney Taxi Zone viz:

Section 167-2 (3)

Central Sydney Taxi Zone:

- (a) consists of that area within the City of Sydney bounded by the Harbour from Day Street, Darling Harbour, in the west to the Opera House in the north, and thence along Macquarie Street, Prince Albert Road, College Street, Wentworth Avenue and Elizabeth Street in the east, Eddy Avenue, Pitt Street, Railway Square and Broadway in the south, and Harris Street, William Henry Street, Pier Street, Harbour Street and Day Street in the west, returning to the waterfront at Darling Harbour, and
- (b) includes those named roads specified as constituting the boundary of the area.

Due to the continuous nature of the CBD and lack of natural boundaries to the East and South, it would be extremely difficult to overcome problems that might be expected to occur at and near boundaries to the CBD zone. The following examples are based on using the above definition, but it seems similar issues would also arise with alternative boundary choices.

For example, as indicated previously, it seems that a flat fare would need to be set at the high end of metered fares during peak congestion times. This would mean that at off-peak times there would be a significant difference between fares from within the zone to those commencing just outside the zone. This will create an incentive for people at the Marriott Hotel in College Street for example to walk around the corner into Oxford Street to hail a cab and obtain a cheaper fare to the airport. Similar issues would arise where fares from one side of Central Station (Chalmers Street) would be different to those from the other sides of the station (Eddy Avenue or Pitt St.). This would create problems of traffic congestion and work against the efficient use of taxi ranks provided at these locations.

Adding more zones and presumably a different set of flat fares for Kings Cross and North Sydney would simply exacerbate such boundary problems. Without evidence regarding the extent of any existing problems there seems little justification to create such zones.

2.9.4. Should the flat fare include or exclude additional fees (such as the airport access fee, booking fee and Eastern Distributor toll)?

It seems incongruous for a “flat fare” to then be subject to additional charges, but it would be impossible to avoid these on the basis that different charges are payable by the passenger depending on the direction of the journey and route undertaken.

Booking fees would either need to be included in the flat fare, and create associated compromises to cost, competitiveness and equity, or made additional to the fare and compromise simplicity.

In each case either option is problematic.

2.9.5. Should the flat fare be optional or only apply at certain times of the day?

Introducing variables such as optional flat fares or different flat fares at different times of day would increase complexity and hence compromise the main benefit for flat fares which is simplicity.

It would be advantageous for passengers and taxi drivers for flat fares to reflect the elapsed time and distance of the journey. To achieve this, flat fares would need to change throughout the day to try and more closely match fares to the time elapsed for the journey.

Clearly, taxi meters already do this, and to create a range of set fares that try to replicate what already happens seems to defeat the purpose of having flat fares in the first place.

2.10. Is it necessary to for us to include a mechanism to address fuel price volatility?

As with many other costs, the long-term trend has been for increasing fuel prices and presumably long term trends in world-wide supply and demand mean this is expected to continue in the long run.

As canvassed in the discussion paper, large fluctuations in fuel prices can have a significant impact on the cash flow of taxi drivers and/or taxi operators.

Whilst it would be desirable to compensate drivers, operators and passengers by passing on the cost or savings created by changes on fuel prices, there are a range of factors that tend to make this aim impractical in most cases.

Whilst various measures may be achievable to levy passengers or increase fare components when fuel prices increase significantly, the reverse is not the case and levies to reduce fares, or recalibrate taxi-meters to achieve lower fare levels would be problematic.

2.11. Is a mid-year review the best way of addressing LPG price volatility?

Given the seasonality and volatility of fuel price movements, it is difficult to identify when sustained price movements are occurring. This will undermine the effectiveness of mid-year reviews of taxi fares based on LPG price movements.

The benefits of a mid-year review are quite short-lived as the change only applies for six months. Furthermore, it is not practical for taxi operators to recover the cost of changing meters and fare labels in the short-term.

There are a range of reasons that make it difficult to introduce short-term downward changes in taxi fares; these are largely related to the disincentive involved for taxi driver and operators. Enforcement of changes that result in reduced fares would be difficult and this may undermine the public's confidence in the industry. As the longer term trend will be for increasing fuel costs then fare decreases based on any fall in fuel costs are likely to be reversed within a relatively short time frame.

In order to remove any doubts in relation to the sustained nature of price movements and to maintain public confidence in the calibration of taxi meters, it would be preferable to only conduct mid-year reviews at times when sustained and significant cost increases occur.

2.12. If we keep the mid-year review of LPG prices, should we retain the 10% threshold for fare changes, or increase it so that we recommend fares only if LPG prices change by at least 20%, or some other value?

If mid-year reviews are to be continued then a threshold of a sustained price increase of 25% would be more appropriate. This would represent an increase in a full-time driver's fuel costs by approximately \$35 per week in the city and an increase in operators' fuel cost of approximately \$75 per week in country areas, based on IPART's estimates.

Based on the contribution of fuel costs to the taxi cost index a 25% increase in fuel costs would result in a fare increase of approximately 2%.

2.13. Are there benefits from us looking at cost forecasts in order to decide whether to recommend a mid-year fare change? If so, do those benefits outweigh the drawbacks of doing this?

If reliable forecasts for retail prices of LPG fuel are available then using forecast values in the taxi cost index itself may help overcome the problems caused by volatile fuel prices.

However, if the forecasts are unreliable then the complexity of retrospective adjustments to compensate for differences between forecast changes and actual changes may outweigh the benefits and make fare adjustments themselves more volatile.

3. Other matters raised during the public hearing on 12nd April 2010.

The potential for a change to the definition of a maxi-cab in the Passenger Transport Regulations was raised during the public hearing on 12th April.

The current definition is:

maxi-cab means a taxi-cab that has seating accommodation for 6 or more adult persons in addition to the driver.

The definition is used in determining when a higher tariff (150% of the normal tariff) can be charged to offset the higher cost of providing and operating larger vehicles whilst providing a benefit to groups of passengers who would otherwise be required to hire two taxis.

As 5-passenger vehicles are no longer available, the NSW Taxi Council supports changing the definition of a maxi cab to a vehicle with seating accommodation for 5 or more passengers. A commensurate change to gazetted taxi fares for taxi cabs would also be required.