

New South Wales Taxi Council

Submission to

The Independent Pricing and Regulatory Tribunal

Review of Taxi Fares in New South Wales 2008

March 2008

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1. Introduction

This submission provides the New South Wales Taxi Council's comments on the items raised by the Independent Pricing and Regulatory Tribunal (IPART) in the 2008 Review of Taxi Fares in NSW Transport Issues Paper. It includes information regarding changes in costs affecting the taxi industry and the implications for the 2008 fare adjustment.

The NSW Taxi Council welcomes the opportunity to respond to specific items raised in the issues paper and to participate in the review process. We also appreciate being provided an opportunity to comment on IPART's draft final report prior to the fare adjustment which is anticipated to take effect from 1st July 2008.

IPART has sought comment on 57 individual matters. It is not possible for the NSW Taxi Council to provide in-depth responses along with supporting evidence to such a large number of matters within the available timeframe. Many of the items raised involve complex issues.

Available supporting information will be presented to IPART under separate cover in confidence. We would welcome the opportunity to discuss any outstanding specific matters with IPART if it considers that further supporting information would be helpful.

Each item in the issues paper is reproduced here within the relevant Chapters along with our response.

The final chapter presents a summary of our assessment of cost changes affecting the taxi industry in NSW as at the end of February 2008.

2. Costs & Weightings in the Taxi Cost Index (TCI)

Overview

The NSW Taxi Council has for many years supported the use of a taxi cost index as the basis for reviewing taxi fares in New South Wales. We have also always supported the need for the TCI to be updated from time to time provided such updates make the TCI more accurately representative of the actual costs faced by taxi operators and taxi drivers.

In general terms the taxi industry is faced with strong competition in the passenger transport market. The pricing of taxi fares is therefore a very important factor in ensuring the industry remains viable and also cost competitive. This means the taxi industry's interest cannot be well served by an index that either underestimates or overestimates cost movements resulting in fare adjustments that either under or over compensate for real changes in costs.

It is the sole aim of the NSW Taxi Council to ensure the TCI reflects real cost movements as accurately as possible.

Most of the discussion regarding costs and weightings in the TCI is based on the survey of taxi operators and taxi drivers undertaken in August 2007 by PricewaterhouseCoopers (PWC).

PWC has applied a number of assumptions to the survey results to derive some calculated costs and hence the proposed index weightings.

From the outset, the NSW Taxi Council had grave reservations regarding certain aspects of the survey questionnaires and the problems associated with obtaining accurate and reliable information.

In our view, a number of these concerns have come to fruition and are reflected in the results published by PWC. In some areas we believe the survey results themselves are flawed or unreliable and this can be demonstrated. Whilst some results do appear representative, in other areas it appears the report includes some conclusions that cannot be relied upon and which require more in-depth investigation or improved verification.

For example, some results of the survey cannot be considered typical when the greatest proportion of drivers reported they drove less than 499 Km per week, and the most popular shifts were reported as: Monday mornings, Friday mornings, Wednesday and Sunday mornings and Tuesday afternoons. These results seem to have been accepted and reported without question when they are clearly unrepresentative. Taxi network statistics (which are reported to the Ministry of Transport every month) indicate that nearly double the numbers of taxis typically work on Friday afternoons compared to Sunday mornings and the number of taxis working on any afternoon is consistently higher than on the mornings of the same days. This data is in direct contrast to the most popular shifts reported in the PWC report and the marked discrepancy raises serious questions regarding how accurately at least some of the results represent typical taxi operators and typical taxi drivers.

In some areas we propose alternative assumptions supported with reasons why we believe they are more realistic than those used by PWC and why they produce results that more accurately reflect the real costs of operating and driving taxis.

All the comments made in this submission are simply aimed at improving the accuracy of the TCI. None of our comments are intended to imply that any bias or inaccuracy has been presented in the work of PWC or IPART through either deliberate intent or negligence.

Item 1: What are the reasons for the differences in costs indicated by PWC compared with those included in the current Taxi Cost Index?

There are a number of systematic reasons why it should be expected that costs indicated by PWC (based on an industry survey) will be different from the costs included in the current Taxi Cost Indices.

The values in the current cost indices are based on the original 1999 survey adjusted by “average annual changes” measured in each subsequent year and applied to the index the following year.

The 2007 survey presented information as at a point in time. Apart from any measurement errors at each stage in the process, the figures would be expected to differ as one is based on annual average changes and the other a particular point in time. Furthermore, since the Taxi Cost Indices are based on movements between the two previous years and not the current year it will always reflect past movements and not current figures. The two cannot align at any particular time for these reasons.

This characteristic of the indices means that the taxi industry is always trying to recover increased costs one or more years after the increase has occurred. This is particularly problematic for costs that have volatile movements such as fuel costs.

Furthermore, there are differences in the “model” upon which the original and proposed indices are based, for example, the changed assumption regarding the number of drivers per taxi-cab.

These differences are structural and are built in to the nature of the indices; they do not provide any justification for one-off adjustments to taxi fares.

Item 2: Are the costs of providing taxi services as similar in urban areas as the PWC report suggests (around \$10 000 per year higher in urban areas)?

Many costs are similar between country and urban areas. Some higher costs such as higher fuel costs and network fees are to some degree offset by lower insurance and other lower costs.

The PWC model for the country TCI includes the cost of entitlements for taxi drivers. We suggest this is not appropriate and discuss this under Item 7 below.

The index figures suggested by the NSW Taxi Council reflect a greater difference in total costs between the urban TCI and the country TCI of \$17 100.

Item 3: Is the award wage rate for bus drivers an appropriate estimate of taxi driver wages or would a different type of driver be more appropriate?

The NSW Taxi Council asserts the most appropriate rate is that prescribed by the NSW Industrial Relations Commission (IRC) for the payment of downtime to taxi drivers under the Taxi Industry (Contract Drivers) Contract Determination, 1984. (Referred to hereafter as the Contract Determination).

As the other survey data has been taken at a point in time (i.e. between mid-July 2007 and 14th August 2007) it is important that other data align with this period of time. The rate for downtime for taxi drivers in the Sydney Metropolitan Transport District determined by the NSW Industrial Relations Commission as at the time the survey was undertaken (prior to 14th August 2007) was \$16.95 per hour.

The downtime rate is designed to compensate drivers for their loss of earnings in situations where the operator is unable to supply a taxi. It is therefore presumably a direct measure of the value the IRC places on taxi drivers' time.

Using the same assumptions as PWC and substituting the Contract Determination downtime rate this provides a notional wage for drivers in the urban TCI of \$79 326 per annum.

Using similar process the figure for country drivers (and 48 weeks per year as assumed by PWC for country taxis) the notional drivers wages should become \$80 546.

The difference is due to the PWC survey conclusion that drivers in country areas work more hours per annum than those in urban areas.

Item 4: Should the driver's wage rate be the same in the urban TCI and country TCI?

The Contract Determination does not apply outside the Sydney Metropolitan Transport District so there is no equivalent alternative rate to use as a reference for country areas.

Whilst it is possible that drivers' earnings in most country towns are different than for drivers in urban areas we have no reliable basis for measuring the difference or proposing that it be reflected in the TCI weightings.

Item 5: What other information should IPART obtain to check that PWC's estimates are reasonable?

Apparent inconsistencies and anomalies in the survey results provides a warning that a high degree of caution needs to be exercised in accepting the survey results as being representative.

As mentioned earlier, the reported pattern of most popular shifts worked does not reconcile at all with network data regarding the shifts during which taxis are actually logged on and working. It is fairly common knowledge that the most popular shifts are night shifts and that Thursday through to Saturday nights are the most popular shifts of the week. This data can be easily verified.

The reported data on kilometres driven and earnings do not reconcile with each other or the ATO benchmark rate of \$1.06 per Kilometre. The reasons behind these discrepancies should be investigated before too much faith is put in the results.

PWC has not commented about these inconsistencies or what information was obtained to try and reconcile these matters through the on-site interviews with taxi operators. No comment is provided regarding the degree of consistency between the survey results for particular items and the data obtained from taxi operator records.

Item 6: Are PWC's other assumptions used to estimate driver's wages reasonable?

Comments are provided above.

Item 7: Since the award only covers metropolitan taxi drivers, is it appropriate to introduce driver entitlements into the country index?

The coverage of the Contract Determination is significant in this regard. To be strictly correct the survey respondents should not have been asked whether they pay entitlements to drivers but perhaps should have been asked whether their permanent drivers would at any time during the next six years demand payment for entitlements?

At any point in time a taxi operator cannot know the answer to this question. The expense accrues and at any point during the ensuing six years they may be required to pay. PWC correctly points out that drivers and operators often negotiate discounted pay-ins because of this entitlement. It is however, because the entitlement exists by law, then drivers have some ability to negotiate.

In the country the entitlement does not exist and hence there is no reason to assume that drivers are able to negotiate such arrangements.

In our view there is no sound basis for making a provision for driver entitlements in the country TCI.

The correct figure for driver entitlements in the urban TCI should be \$8926 as opposed to the PWC figure of \$8113. The difference is due to the fact that the Contract Determination provides eight days sick leave entitlement and not the five days used by PWC per annum.

Item 8: Do administration pay rates differ between country and urban operators?

The NSW Taxi Council can see no grounds for using different nominal pay-rates for operators in country and urban areas. It would be most practical to use the same rate for the purposes of weighting each TCI.

Item 9: Should casual and holiday loadings be included in the administration wage rate?

It is appropriate that rates be based on award rates that apply to comparable employees. It is our understanding that the Annual Leave Act requires casual employees to be paid for holiday entitlements accrued per shift worked. The holiday component is therefore part of their earnings and for comparison purposes should be included as proposed by PWC. The term "holiday loading" is probably misleading. It might be more accurately described as a payout of accrued annual leave entitlements.

Item 10: Is it appropriate to use the mean from the survey results and not the median as the measure of hours spent on administration? Should the results for single taxi operators be used?

It is our view that taxi operators are likely to underestimate the time spent on the administration of their business. During a survey, it is most likely that the daily activities spring to mind and not the irregular or unplanned administration time involved in activities such as:

- Recruiting and training drivers,
- Obtaining quotes from suppliers
- Dealing with insurance claims
- Accident repairs
- Travel time
- Vehicle Inspections
- Workers compensation claims
- Minor maintenance
- Regulatory matters (e.g. traffic infringement notices, accreditation renewals, audits)
- Office maintenance
- Leasing matters (e.g. taxi licence, premises)

For a single taxi operator who, in the majority of cases also drives the taxi, it is likely that these and other similar activities take up time that would be otherwise spent driving the taxi and is hence most likely reported in the survey as shifts driven. This means the data obtained from single taxi operators in the PWC survey is possibly the least reliable measure of actual time spent on administration.

The survey results themselves support this claim. Urban operators reported spending an average 61 minutes per day attending change-over. This in itself accounts for virtually all the administration time reported elsewhere.

Nearly 80% of survey respondents were single taxi operators. The vast majority of single taxi operators also drive their taxi and therefore presumably must attend the changeover. It seems quite clear that time spent on administration is under-reported and time spent driving is over-reported.

The PWC survey asked operators how much time they spent each week, it is simply unreasonable to expect responses to that question to accurately include estimates of time spent on tasks that occur monthly, quarterly, annually, less frequently or randomly (such as accidents).

In its submission to the 2004 review of taxi fares, the NSW Taxi Council provided IPART with the results (and individual responses identified by taxi number) of a detailed time survey of 14 single-taxi operators. The survey listed the tasks involved in operating a taxi and asked the operators to indicate how much time was spent on each task. The survey allowed operators to report the time spent on different tasks according to their frequency e.g. daily, weekly, or every 1, 3, 4 or 6 months, or every year or 3 years. This provided an easier way for respondents to provide accurate estimates by prompting them to think about the individual tasks involved in operating

their taxi and to report the results based on the actual frequency of the task. No individual operator in this survey indicated they spent less than 7 hours per week yet the PWC survey provided a median value of only 7.5 hours.

The Taxi Council survey revealed that operators spent on average 18.62 hours per week administering their taxi business. A statistical analysis of the results indicates it could be predicted with 95% confidence that the average was within the range between 14 and 23 hours per week. The median value was 16.5 hours. Clearly the difference in the results between the two surveys is statistically significant which may indicate that if PWC had used a questionnaire that sought more in-depth information on this matter and was, in our view, easier to complete accurately the results would be quite different.

This provides a further significant basis to our concerns that the hours reported in the PWC survey seriously underestimate the true figure for time spent by taxi operators in running their businesses.

For these reasons we believe that the methodology adopted by PWC seriously underestimates the time a single taxi operator actually spends throughout the year.

The figure used in weighting the index needs to be adjusted upwards either on the basis of the previous NSW Taxi Council survey or by some measure that counters the expected systematic underreporting for the reasons outlined and supported above.

For the purposes of weighting the index we have used an estimate at the mid-point of the PWC and NSW Taxi Council survey medians which is 12 hours.

Item 11: Is PWC's assumption that administration time is directly related to the amount of shifts reasonable?

Some time spent on administration is fixed in nature whereas some is directly related to the amount of shifts worked. It would be reasonable to make allowance for the variable component.

Item 12: Is it reasonable to assume that there is a difference between the number of hours of maintenance spent on urban and country taxis?

The NSW Taxi Council sees no reason to reject the information provided in the survey responses and use the mid-point of the median survey response for both urban and country TCIs. The level of precision is governed by the survey design, it is not valid to assume that results can be calculated with a higher level of precision than provided in the survey responses.

Item 13: Is PWC's approach to determining licences costs reasonable?

IPART has requested information on the issues created by the multiplicity of licence types with different lease costs.

The NSW Taxi Council believes that all licences should be issued at current market value. In such a scenario market forces will adjust the value of WATS and

unrestricted licences to compensate for the different costs and earning capacity of each licence type. This would alleviate to a large extent any need to account for them separately in the fare setting process.

Under the current arrangements, the real cost of short-term WAT licences is difficult to assess due to higher costs and potentially associated higher risk for taxi operators.

In Country areas licence values vary significantly. It is also apparent that the value of licences is affected by factors other than simply the expected value of future earnings.

The approach adopted by PWC is reasonable and avoids the significant practical difficulties of dealing with different licence types.

The New South Wales Taxi Council has adopted the PWC estimates for weighting purposes in recognition that the cost of leases for licences increased between the 2007 fare review and the survey period.

Issues relating to the inflator for licence lease costs are discussed elsewhere in this submission.

Item 14: Are fuel consumption and distance travelled figures used by PWC to determine LPG costs reasonable?

Fuel consumption figures obtained in the survey confirm the figures used in the previous TCI in urban areas. The previous TCI for country areas used the same figure for fuel consumption as in urban areas. The PWC survey results indicated that country taxis achieve lower fuel consumption figures.

We have no reason to believe that survey respondents would not have been able to accurately estimate and report fuel consumption figures. However, anecdotal evidence indicates that if anything, typical fuel consumption may be higher than that indicated.

As fuel prices can be generally volatile, we support IPART's proposal to use the average price of LPG over a twelve month period ending March 2008 (when available) for the basis of calculating fuel costs and the index weighting. This is probably the best available figure that includes the survey period. This does result in a slight discrepancy in the TCI as the weighting value will equal the end value for 2008. We have used the average price of LPG as reported on the Gogas website for 35 locations for the period April 2007 to January 2008 as presented in previous fare reviews.

In its submission to the 2004 fare review, the NSW Taxi Council provided IPART with details of odometer readings taken from inspection reports for a sample of 29 taxis in the Sydney metropolitan transport district.

The results of this survey are significantly different to that of the PWC survey. The average was approximately 162 000 Km per year with a 95% confidence interval between 151 000 and 190 000. PWC has reported that operators indicated on average that urban taxis travel 130 000 Km per year.

We cannot explain why the PWC results are lower than expected based on previous experience. We suggest that the survey data should be studied more carefully to ensure the results reflect the responses of “typical taxi operators”.

The use of fairly wide bands in the questionnaire (equivalent to +/- 26 000 km per year) may have contributed to some inaccuracy.

Without being able to review the survey data in more depth we can only suggest reasons that may have caused an erroneous result. One possible explanation may be that the survey responses have been biased by operators who do not bail their taxis to drivers and who only drive the taxi themselves. This question has some connection to the unrepresentative pattern of most popular shifts reported in the survey, as many of these shifts are the slowest shifts to work.

In our view, based on knowledge of the industry and previous data collected, there is some inaccuracy with the reported distance travelled in the PWC survey being below the real figure. For the purposes of the TCI we have used a figure of 145 000 km which is at about the mid-point of our respective estimates.

As a result the cost of fuel and other distance related items such as maintenance and tyres may have been underestimated in the proposed urban TCI. PWC has not published the relevant details and have not adjusted these items which are included in the “other costs” category.

Item 15: Is PWC’s approach of using a quote for the Green Slip cost as opposed to the survey data reasonable.

The difference in the quoted cost versus the survey responses may be partly explained by the fact that CTP insurance costs have decreased during the last 12 months or so. Survey respondents probably based their responses on their last insurance premium.

The approach adopted by PWC is not consistent with the approach adopted with the other insurances however where survey results have been chosen ahead of quotes.

IPART has previously adopted an average of the quotes from the prior two years when measuring changes in insurance costs.

As insurance costs do not fluctuate much during the year the NSW Taxi Council would prefer to use costs based on quotes current at the time of the fare reviews.

For the purposes of weighting in the TCI we have used the quotes and assumptions obtained for the 2007 review for taxi fares as we do not have equivalent information available at time the survey was undertaken.

As discussed in the 2007 submission to the review of taxi fares, we would also prefer to use verifiable quotes as the inflator for insurance costs. This is because the ABS insurance cost index does not accurately reflect movements in the cost of insurance in the taxi industry.

This was demonstrated during the 2007 review of taxi fares when taxi insurance costs as quoted by the NSW Taxi Council went down. However IPART chose to use the ABS insurance index as the inflator. The inflator had increased and hence taxi fares were adjusted upwards as a result.

Item 16: Is PWC's approach of weighting the survey responses by the proportion of respondents who purchased insurance appropriate?

It does not appear that PWC has weighted the survey responses but simply used the median value for each type of insurance. The survey indicated that the median no-claim-bonus was 60% which seems unrealistic for a typical taxi and supports our concerns that the survey results may have been skewed by an over-representation of single taxi operators who do not bail their taxis to other drivers.

It is not clear why the PWC report indicates that 100% of operators take out comprehensive insurance and 99% also have third party property insurance (which is compulsory for taxi operators). Our understanding is comprehensive policies include third party property damage. PWC has added the reported costs for each type of policy which would seem to be double-counting.

Despite the survey results indicating that the median no-claim bonus is 60%, PWC appears to have obtained quotes based on 80% no claim bonus to verify insurance costs. The result is also affected by the artificially low insured value used by PWC based on the redbook value for second-hand cars (discussed under Item 18). Both these factors mean that the quotes obtained by PWC are lower than they would otherwise be.

It seems the PWC report underestimates the cost of comprehensive insurance premiums but has offset this by adding in the cost of third party property insurance. The result however is close to that verified by more realistic quotes based on typical vehicle values and typical policy conditions as provided to IPART during previous fare reviews.

Item 17: Are the assumptions made by PWC to determine costs for vehicle parts and panels reasonable?

PWC has assumed that the average cost of panels due to accidents is \$500 per year based on half the median excess cost of \$1000. This seems to imply typical operators suffer from one accident every two years, or they have assumed that claims are not made for some accidents and repair costs are less than \$1000. Unlike private vehicles, taxi-cabs suffer regular damage caused by passengers, normal wear and tear as well as from traffic accidents. The inspection regime for taxis requires the taxi to have no damage. As urban taxis are inspected every 4 months, this means the taxi operators must ensure that any damage is repaired. Panel repairs once every two years are quite unrealistic. Panel repairs are generally expensive and it seems unlikely that general repairs would cost less than \$500, so this figure seems too low for an average repair cost.

Insurance excess costs are imposed per-claim not per-annum so the excess cost is paid every time a claim is made. Unlike for private vehicle owners, taxi operators cannot reclaim the excess cost for not-at-fault claims.

PWC does not seem to have adequately accounted for cost of parts that are routinely replaced in taxis-cabs including major items including:

- Differential
- Various suspension components
- Steering rack
- Gearbox
- Air conditioner
- Seats

Contrary to claims made by PWC that maintenance costs are likely to be lower for new vehicles, prices reported to the NSWTC for late-model Ford Falcons indicates more frequent replacement intervals and significantly higher prices are being charged for parts than for earlier models.

Replacement costs are increasing as illustrated by the reported cost of a differential for a BA model of about \$1200 compared to about \$600 for the previous AU models. Operators have reported that replacement spark plugs cost about \$15 each for BA models compared to about \$6 for AU models.

Operators that drive their own taxis experience fewer accident claims than operators that have two permanent bailee drivers. It is possible that the survey responses have been skewed if this group is overrepresented in the results.

The PWC report does not refer to data provided on repair costs by operators during their site visits to verify the survey findings. It seems likely that more in-depth analysis of actual costs for these fairly standard operating costs would produce a more reliable result than that obtained by the survey.

For the purposes of weighting the TCI we have assumed that at least an additional \$1000 in excess costs are incurred each year and added this to the PWC estimate.

Item 18: Is it appropriate to use the redbook value for the cost of a vehicle rather than the purchase costs suggested by the survey results.

It appears that PWC have made some erroneous assumptions in calculating the purchase cost of vehicles.

PWC seems to have dismissed the survey results which show that 31% of operators purchased a new vehicle and the price paid for new and second hand vehicles reported by taxi operators.

As discussed earlier, the survey needs to assess costs faced by operators for a typical taxi at a point in time. The median age of vehicles in the survey was 2 years. This means if second-hand vehicle prices have decreased in the last two years then the costs of operating the current vehicle have increased due to increased depreciation. PWC seem to ignore this issue and only consider the benefit of purchasing a vehicle

at today's redbook prices. This does not properly reflect the current cost faced by operators today, or those reported by operators in the survey.

The use of redbook values for Ford Falcons is arbitrary, ignores the fact that 31% of taxi operators reported purchasing new vehicles and assumes that all taxis are Ford Falcons, when a significant and increasing proportion of the fleet are long-wheelbase vehicles such as Holden Statesman, Ford Fairlane and Toyota Tarago.

Whilst it might seem paradoxical, the availability of finance may be a factor that causes operators to purchase a new vehicle when they are unable to obtain finance for a second-hand vehicle.

It is not clear whether the redbook valuation includes the cost of conversion to LPG fuel.

Vehicle colour also has a significant impact on resale values. Typically white cars (which are used as taxis) cost significantly (about 25%) more than cars of other colours and so average prices will not accurately reflect typical prices paid for vehicles purchased as taxis.

Despite using the Ford Falcon for price comparison for second-hand taxis, no information has been provided by PWC on price changes for new Ford Falcons.

PWC provide no evidence to support the claim regarding "continual decrease in the purchase price of new and second hand vehicles in recent years". Whilst it may be true in general terms it is not necessarily true of vehicles that are suitable for use as taxis (particularly prices of new vehicles) and hence is not relevant to the taxi cost index.

The assumption that extra costs faced by purchasers of new vehicles would be offset by savings on maintenance costs is erroneous and misleading given the number of kilometres a taxi travels per year compared to the initial odometer reading of a vehicle purchased second-hand. Using PWC's figure of 130 000 Km per year, a taxi will travel 520 000 km in four years. Whether the odometer starts at zero for a new vehicle or say 50 000 km for a second hand vehicle makes little difference over the life of the taxi and will not result in significant maintenance cost savings.

However, when it comes to vehicle parts and panels PWC has used the data from the survey, which does relate to taxi vehicles. The approach seems inconsistent.

Generally speaking parts and panels for taxi vehicles would be cheaper than the equivalent parts and panels for non-taxi vehicles. If prices for typical vehicles including those that are not representative of taxis were used then the repair and maintenance cost would be much higher. For example, the differential replaced after about 140 000 Km in the Toyota Prius trial taxi cost more than \$4600. This does not compare to the cost of well under \$1000 for a replacement differential for an AU Ford Falcon. Furthermore replacement for a Falcon would typically occur at a longer interval.

It seems inconsistent for the PWC report to accept the survey results for repairs and maintenance, but not for vehicle purchase costs.

The NSW Taxi Council notes the vehicle costs reported in the survey are similar to those used in the previous taxi cost index based on quotes obtained for new and second hand vehicles and based on reasonable assumptions.

The survey median purchase prices of \$25 000 for urban and \$22 000 for country taxis should be used to calculate the index costs. This provides annual costs of \$8296 and \$7391 for the urban and country TCI respectively.

The residual value should probably be regarded as being a book value only.

Item 19: Should the costs of separate methods of funding be considered for urban and country taxis?

It seems unlikely that different funding methods would yield significantly different costs and one model is preferred for simplicity.

Item 20: Since the country taxis are driven less, should they be assumed to have a higher residual value than for urban taxis, as indicated by the survey results.

As discussed above, the residual value is unlikely to be realised.

Item 21: Is PWC's approach to estimating network fees reasonable?

PWC has adopted a median value for network fees whereas the previous model used a weighted average (weighted by the number of taxis). Either method will produce reasonable, albeit probably slightly different results. In our view a weighted average would provide a more reliable estimate for the weightings and a more stable price inflator. The median may move in larger steps from one year to the next if there are significant variations between individual network fees. We have used the weighted average obtained for the 2007 fare review for weighting the index and for the price inflator.

IPART has commented on the apparent difference in network fees between country and urban areas. IPART has surmised that higher network fees in country areas may be an indication of the network's market power when there is only one provider.

We believe that this issue is largely negated by the fact that most country networks are run by co-operatives. Co-operatives are established solely for the benefit of their members. There is no incentive for a monopoly provider to charge monopoly rents when it can only charge itself (through its own members) for the services.

This is the case in the vast majority of single-network towns where the network is a co-operative and network fees are charged to the cooperative's own members. Any Director of a cooperative who supported charging their members any more than necessary is likely to be "unelected" from the cooperative's board. Because taxi fares

are regulated, the co-operatives' members have no way of passing on the higher cost to passengers.

Network fees must cover a wide range of costs faced by taxi networks. Many of these costs are fixed in nature and are not directly related to the number of taxis in the network. Administration costs, network premises, despatch systems, telephone systems, lost property services, regulatory compliance costs are all fairly fixed in nature. Larger networks can spread these overheads across a greater number of taxi-cabs. In Sydney, smaller networks can obtain some of the above services through bureau agreements with larger networks and hence obtain the benefits from the economies of scale. This also happens in some country areas but the scale of the combined country networks with these arrangements remains smaller than the large networks in Sydney.

Economies of scale result in network fees being related to the size of the network and this fully explains why small country networks charge their members higher fees than the larger urban networks. Smaller networks generally have higher costs per taxi and hence higher fees.

In the country there is an incentive for cooperatives' to maximise their members' profits by minimising the costs of their network fees. Conversely, if there were more than one network in each town for the same number of taxis, total costs would inevitably be higher.

The fact that country networks are establishing shared call centres provides tangible evidence that they are striving to minimise costs

Item 22: Is it reasonable to include costs for detailing in the country TCI that are three times the urban cost, purely as a result of different practices?

This question refers to the survey result indicating that country operators have their vehicle detailed more frequently than urban taxi operators.

It would be unreasonable for IPART to assume that country taxi operators are inefficient because their practices are different. Different practices and different costs are the very reason there are separate TCIs for the country and urban areas.

In our understanding, the purpose of the survey was to identify the cost of operating a "typical taxi". To change this approach would be to confuse the objectives of the survey and risks creating a situation where IPART only accepted practices that it deems "appropriate" for taxi operators. We do not believe it is IPART's role to weight the TCI based on its own views of how taxi operators should be looking after their vehicles.

Taxi operators are held accountable by their passengers and the Ministry of Transport for the condition of their taxi-cabs. It is not IPART's role to determine how taxi operators should maintain their taxi-cabs.

PWC appear to have combined drivers' other costs (driver licence and driver authority fees) and operators' other costs (tyres, detailing, and government charges) into a single "other costs" item.

It is important that cost items used in the urban TCI are designated as either operator costs or driver costs. Since fixed pay-ins are regulated for operators and drivers in the Sydney metropolitan transport district, fare adjustments need to flow through to the regulated maximum pay-ins set by the Industrial Relations Commission. This needs to be done in a manner that allows drivers and operators to retain their share of the fare increase in accordance with their respective increase in costs. In order for this to happen, the urban TCI needs to identify how the all cost increases affect taxi drivers and taxi operators.

If PWC has identified "other" costs for drivers that combine to form more than 2% of the TCI then they should be included in an item for "driver's other costs". Likewise the remaining items need to be included in an item for "operators other costs".

This submission uses a value of \$3182 for "other driver costs" based on the 2007 TCI data and deducted this from the combined figure published by PWC to derive "other operator costs".

Item 23: Is it appropriate to update the weightings in the TCI annually in line with changes in relative prices and to review the quantities more thoroughly on a five-yearly basis?

The NSW Taxi Council agrees with IPART's proposition that cost weightings be changed annually in line with changes in relative prices and that the quantities be reviewed thoroughly every five years.

Item 24: Is the annual and public holiday leave index published by the ABS a more appropriate inflator for driver entitlements than the WPI?

It is not clear why IPART chooses to use an ABS inflator for this item when the rate for taxi driver annual leave and sick leave (entitlements) governed by the Contract Determination, is adjusted annually by the NSW Industrial Relations Commission and is publicly available.

We fail to understand why IPART considers an economy-wide indicator to be a better measure than the industry-specific rate determined by the Industrial Relations Commission.

Item 25: Should IPART continue to estimate changes in country network fees using a weighted average of a limited number of towns.

We are firmly of the view that actual network costs in urban areas are a highly reliable measure in the urban TCI.

It is acknowledged that there are significant difficulties in measuring changes in network fees for country networks. In reality, network fees in country networks do fluctuate more widely than for urban networks. This is discussed further below.

Accuracy could be improved and fluctuations smoothed by increasing the sample size to about 10 country networks. This provides a practical number that should be more broadly representative. This remains our preferred method for measuring changes in this cost.

Item 26: Are changes in network costs in urban areas a good estimate of cost changes in country areas?

Changes in urban network costs are not an accurate measure of cost changes in country areas. There are important reasons why cost movements in country areas can be significantly different from that in urban areas

For example, there is an increasing tendency for country networks to adopt bureau services in order to reduce costs.

As discussed previously, the number of taxis in a network is an important factor in determining network fees for individual operators. Areas with higher growth in taxi numbers have greater potential to offset cost increases the network faces by charging fees to a greater number of taxis.

Item 27: Are the fluctuations seen in the reported fees of individual networks representative of actual changes in network charges or are they a result of inconsistent reporting?

Some difficulties have been experienced due to inconsistent reporting from country taxi networks from time to time.

However, this does not explain all of the reported fluctuations in country network fees. Small cooperatives generally meet their cash-flow needs by raising money via network fees to the members. This means that fees can increase rapidly in response to the need to finance capital purchases or other irregular expenses such as new premises, new dispatch systems, telephone systems etc. or one-off legal or consulting expenses. When the finance need is over then fees are reduced again.

It may be possible to improve the standardisation of reporting from country networks and introduce procedures to ensure that reported fees do reflect changes in underlying costs and are not affected by, for example, loan capital repayments.

These matters need to be discussed in more depth with IPART and the Country Taxi Operators Association so a reliable and achievable methodology that satisfies IPART's requirements can be adopted for future reviews. The methodology needs to specify a consistent approach to the way various types of payments are treated.

In the 2007 review, IPART excluded Bathurst Cabs' fees from the cost index due to some inconsistency in reporting. The figures provided this year for Bathurst include an average of 3 months' fees to the end of March 2007 compared to the average for the same fees for the 3 months to the end of December 2007.

However, one other network's fees have been excluded from the model this year because that network has adopted a change in policy to remove cross-subsidisation of fees. This means the change in fees from 2007 to 2008 does not just reflect the change in that network's costs and it is not possible to obtain comparable information.

In selecting a larger number of networks to include in the TCI consideration must be given to establishing a manageable number for whom consistent reporting can be achieved.

Item 28: Is it important to remove the link between licence plate lease costs and fares?

The potential problem created by the inclusion of licence lease values used in the TCI to derive lease costs which ultimately affects taxi fares has been raised by the NSW Taxi Council in previous submissions. It is not in the long-term interest of the industry for licence values to be artificially inflated simply because their value is taken into account when fares are adjusted. Such a cycle could detract from the industry's long-term competitiveness and ultimately benefit the industry's competitors.

However, history shows licence values move quite independently of fare adjustments so it seems this potential issue is not having any significant impact.

Other more significant factors affect the values of licences and the cost of leases. The relationship between supply and demand of licences determines the market value and these factors are not significantly influenced by movements in that part of taxi fares that are currently affected by lease costs.

As discussed elsewhere in this submission, the NSW Taxi Council supports a market-based approach to release of new licences to ensure supply of licences keeps pace with the growth in demand for taxi services. The best way to stabilise the market for licences is to ensure there is an appropriate balance between supply and demand.

Demand for licences is affected by anticipated demand for taxi services, regulatory risks, changes in alternative investment opportunities including taxi licence values in other States, sharemarket values, property investment and interest rates.

Given the apparently limited influence of the link between taxi fares and licence values the theoretical problem does not appear to have any practical significance.

If a direct measure of metropolitan licence lease costs is obtained as discussed below, then the link between licence values and taxi fares through the TCI will become less direct than using the previous approach of calculating licence costs using an assumed yield on licence values.

Item 29: Is it appropriate to use the change in interest rates from year to year as an inflator for licence plate lease costs?

Licence lease costs move independently of changes in interest rates. Movements in interest rates do not provide a reliable proxy for movements in lease costs because

licence yields do not move in line with changes in interest rates. This is illustrated below.

It would be preferable to use the change in the actual cost of taxi licence leases than to use the change in interest rates.

Lease costs for taxi operators can change significantly and it is only reasonable that the impact of these changes be passed on to taxi passengers. For reasons discussed above, leases do not just increase from year to year and in some years they have fallen very significantly due to factors other than changes in interest rates. Unless the TCI captures these changes then the taxi industry's competitiveness can be eroded or viability threatened as cost increases and cost savings would not be passed on to passengers through fares.

The TCI should use a measure of actual lease costs if one is available.

IPART has in previous years adopted the rates published by the Reserve Bank of Australia for personal revolving credit home equity loans to derive comparative values for taxi lease costs. An assumed yield was used on the value of taxi licences to derive a lease cost, and movements in this value caused by changes in interest rates and changes in licence values have been calculated each year. In the past we believe this has provided a reasonably representative result.

However, we believe that in the current market environment the result is not representative of actual changes in lease costs. This is strongly supported by the results obtained in the PWC survey.

The PWC survey indicates that urban taxi operators reported median licence costs of \$25 000 per annum which indicates a yield of 6.8%. This is well below the yields that PWC says are typically between 2% and 3% above the 3 year Commonwealth bond rate which at that time would result in yields between 8.2% and 9.2%. PWC does not comment on this discrepancy. PWC uses the 3% margin for estimating country licence costs.

The revolving credit loan rate (adopted by IPART in previous fare reviews as a proxy yield for licences) was 8.45% at that time, which is also higher than the yield implied from the survey responses.

In this case it appears unlikely that any of the measures proposed for inflating urban licence lease costs in the TCI are a good proxy for actual cost changes during the last twelve months. The increase calculated by using the method adopted in previous years is approximately 56% which is not representative of the actual movement in costs. The movement in the revolving credit interest rate was 6.3% which is also not representative of actual lease cost movements.

It appears the recent rise in Sydney licence values has been influenced by speculative behaviour or the market has adjusted to a reassessment of relative risk. The result has meant that the yield on licences has fallen. This means that actual lease costs for taxi operators have not risen as much as is indicated by the interest rate and licence value based measures discussed by PWC or adopted in previous fare reviews.

Based on this information, it seems that a direct measure for licence lease costs needs to be obtained.

The NSW Taxi Council has obtained information on the lease cost of licences leased to taxi operators by two of the large taxi networks in Sydney. Some taxi networks act as intermediaries in the leasing market by leasing licences from owners and on-leasing them to taxi operators. The rates charged by taxi networks to operators are typically considered to be around the mid-point of the range of rates for leases in the market.

The figures obtained from each network are consistent with each other and also very close to the figure obtained from the PWC survey. The networks' data indicate that lease costs faced by operators have risen by 10.7%. The comparison has been performed using the mid-point for the two networks' monthly figures averaged over the period from April to March for each of 2006/2007 and 2007/2008. The NSW Taxi Council believes the data is a direct and accurate representation of movements in lease costs across the market and has used this as the inflator for lease costs in this submission.

It is recommended that IPART investigate the validity of adopting a similar method based on verifiable information for inflating licence costs in the TCI based on data provided by lessors. As licences are advertised for lease in newspapers there is a second independent source of information on the rates being sought by licence owners that can be used to verify the results obtained. Advertised rates are usually toward the upper end of the range of market rates.

3. Taxi Fares in New South Wales

Item 30: Are there concerns about the current value of the flag fall? Does the relativity between the flag fall and distance rates give drivers (and passengers) an incentive to avoid short trips?

There is no clear-cut answer to questions about what constitutes the best combination of fixed and variable fare components.

The flag fall establishes the minimum fare. It provides some compensation to the driver for the time they spend processing EFTPOS transactions, collecting the fare, providing change, waiting for the passenger to exit the taxi-cab and for simply being available for hire.

A higher flag fall would increase the incentive offered to drivers to accept fares for short journeys. It also increases the cost to passengers who are travelling short distances.

It can be argued that the elderly, frail and people who are less mobile are more likely to hire taxis for short trips and these passengers would suffer most in terms of cost if the flag fall was higher and the distance rate lower. On the other hand the incentive for drivers may increase the number of drivers seeking this type of work and hence improve service levels for these passengers.

The NSW Taxi Council has no reason to believe that the current flag fall is not appropriate.

Item 31: Are there specific concerns with the current relativities between the distance rate and the other fare components.

The example provided by IPART in the issues paper illustrates the way in which the relativities between the distance rate and the waiting time rate can affect the fares for similar types of journeys. In practice, this can create variations in fares for the same journey at different times of day based on the prevailing traffic conditions, although in practice it is highly unlikely that fares for two 10Km journeys each taking 20 minutes would vary to the extent illustrated by IPART's hypothetical example.

The NSW Taxi Council has no reason to believe that the current relativities between components is not appropriate.

Item 32: Is there any justification for retaining the tariff II distance rate for country areas or should a single distance rate apply to all fares?

The country tariff II rate remains justified for the same reasons as when it was introduced.

In urban areas a taxi driver often has the option to stay in the area where a passenger has been taken and seek another fare in that area. In this case the taxi driver does

not need to be compensated for returning to an area where they can again commence working.

In country areas, any journey over 12 km is likely to take the taxi driver away from any potential work which means the driver is compelled to return to the town centre.

The costs of the return journey need to be paid by someone, and it is perfectly reasonable that the cost be assigned to the person that caused the taxi driver to be taken out of town. If taxi drivers have no opportunity to recover the cost of the return journey then they are likely to try and avoid passengers who want to be taken out of town, particularly during periods of peak demand.

Item 33: If country tariff II is retained should it apply to trips that are longer or shorter than 12 kilometres?

The current threshold distance of 12 Km is very well accepted.

Reducing the threshold distance would create confusion for passengers who are used to the current arrangement and become a cause of arguments between taxi drivers and passengers through no fault of the driver. It is important to bear in mind the situations that taxi drivers regularly face. If and when the issue arises it is likely to be late at night, some distance out of town with a drunken and/or potentially violent passenger onboard a taxi. The implications need to be considered carefully.

Increasing the threshold distance would result in an effective reduction in fares and hence taxi driver earnings, regardless of the cost increases that may have been awarded by reference to the TCI.

For these reasons it is strongly recommended that the threshold remain as it is.

Item 34: Should the night-time surcharge (as a percentage of the whole fare) be recalculated each year based on a percentage mark-up of the labour component of the fare only?

In table 3.1 of the issues paper IPART seems to have omitted the surcharge that currently applies in country areas on Sundays and Public Holidays.

The surcharge should remain based on the distance rate for reasons of consistency and simplicity. Traffic congestion is a much less significant factor late at night so the distance rate is a reasonable proxy for labour costs.

Item 35: Are there any other issues associated with the night time surcharge as it is currently applied?

The surcharge is widely accepted by customers who are used to paying surcharges for services provided by many industries during weekends or at night.

The following edited extract has been taken from the NSW Taxi Council's submission to the 2004 review of taxi fares.

The Taxi Council supports the extension of the night-time surcharge (in urban areas) to Sundays and Public Holidays as a means to increase the availability of taxis during these times.

Three networks have provided the Taxi Council with information regarding the number of cars working and the number of telephone bookings received for each day of November 2003, and for Christmas and Boxing Day.

For the three networks the number of cars available for work on Sundays (compared to the average for Monday to Saturday) dropped by 11%, 7% and 17% respectively.

Whereas the number of telephone bookings: stayed the same, increased by 5%, and decreased by 13% respectively.

In each case the number of taxis available fell by significantly more than the change in the indicated demand for taxis. It is likely that this phenomenon would be even more apparent if data relating to the hours that Tariff 2 is already used on Sundays were removed from the figures.

On Christmas and Boxing Day the number of cars decreased by 26%, 19% and 31%, whereas demand for taxis only decreased by 12%, 4% and 22% respectively. The discrepancy between the change in supply and the change in demand is even greater in each case for these public holidays. Again it is likely that if the hours of operation for Tariff 2 were removed from the daily figures then the divergence between the number of cars and the demand for taxis would be higher than the full-day figures.

This data provides a clear indication that the decrease in the number of cars on the road is not explained by the change in demand on these days.

In each case there are fewer cars available per telephone booking made, which would suggest that the availability of service is lower on Sundays and public holidays than on the average for other days of the week.

This information supports the case for extending the hours of operation for tariff 2 in urban areas, to include all day Sunday and on public holidays as it does in country areas. Such a step will encourage more drivers to work on these days and will improve the level of service for passengers.

It is noted that this issue seems to have been recognised in Queensland where a surcharge applies from 7 p.m. to 7 a.m. Monday to Friday and all day Saturday, Sunday and on public holidays.

Item 36: Is it necessary to regulate booking fees?

In our view, IPART has misunderstood the purpose of booking fees. The issues paper states that “ideally the fee should be set to cover the cost of the radio call and network fees”.

Booking fees were introduced as payment to taxi drivers to compensate them for driving from the location they accept the booking to the pick-up point for the passenger and for waiting for the passenger if they arrive earlier than the booked time.

IPART has calculated network fees per phone booking. In fact network fees pay for the cost of many services provided by networks other than the despatch of telephone bookings. Many of these other services and hence the associated costs are totally unrelated to telephone bookings. This includes services such as: lost property; regulatory enforcement and compliance; alarm monitoring and responses; customer feedback; certification; driver queries; advisory services and representation.

It is not appropriate to try and apportion networks' total costs to telephone bookings.

Current booking fees should remain regulated for the reasons outlined by IPART in the issue paper. In most places in New South Wales there is only one provider of network services so passengers have no opportunity to compare booking fees and exercise choice when choosing which taxi network to use.

It would be impractical to have the fee regulated in some areas and unregulated in others.

Item 37: If booking fees continue to be regulated, should they be based on network charges or some other rationale?

As outlined above, booking fees cannot be related to network costs as they relate to the cost to the driver of accepting the booking and travelling to the pick-up location.

Careful consideration would need to be given to customers' perception and acceptance of booking fees and the practical implications for drivers and passengers before any structural change in the level of booking fees would be considered.

This does not rule out the possibility that different types of services may be developed in the future. Scope remains for introducing different types of fee to cover any additional cost of these services. The premium service fee discussed elsewhere is an example.

Item 38: What is the most appropriate way to set the waiting time charge and the threshold speed?

Threshold speed should continue to be set as the vehicle speed at which the meter runs at a rate equal to the waiting time rate. The threshold speed in kilometres per hour can be calculated by dividing the waiting time rate in dollars per hour by the distance rate in dollars per kilometre.

Setting the threshold speed in this manner provides a smooth change-over from one rate to the other and avoids discontinuities or jumps in the rate at which the meter runs when meter is operating on Tariff 1 and the vehicle is travelling above or below the threshold speed.

IPART is correct in stating that some costs such as drivers' labour varies with time rather than by distance. There are many operator costs that also vary by time including the costs associated with the taxi licence, vehicle finance costs and network fees. All these costs must be recovered from taxi fares and should be reflected in the waiting time rate.

The waiting time rate acts as a floor for the variable part of the taxi fare. It is the slowest rate at which the meter will run during a journey. It is appropriate that the rate be set in a manner that reflects a fair minimum return to cover both drivers' and operators' costs.

It seems illogical to value drivers' labour at a guaranteed wages rate per hour times 9 hours per shift as suggested by PWC for the purpose of weighting the TCI, yet suggest setting the waiting time rate based on the same (or similar) hourly rate as suggested by IPART in the issues paper. This seems to imply that in order for a driver to earn a reasonable return during a 9 hour shift, the taxi-cab must remain occupied for the full 9 hours.

In section 3.3 of the issues paper, IPART cites a study by Booz Allen Hamilton supported by the PWC survey results that indicate that most costs of providing taxi services are indirect costs unrelated to the number of passengers carried. As stated in the issues paper, taxis spend a large amount of time waiting or looking for passengers and if the industry is to provide "on-call" services with fast response times this fact is unavoidable. The cost of this "availability" must be covered by taxi fares.

In order to entice taxi drivers to work, the waiting time rate needs to also offer compensation to taxi drivers for the time they spend making themselves available for hire. So an argument can be made that drivers' labour could be treated more like a fixed cost than a variable cost when one is trying to allocate it to components of taxi fares.

Furthermore, when traffic is congested it will take a taxi driver longer to get to the passengers' pick-up location and to return to a taxi rank or to their next job once they have dropped off a passenger at their destination. The waiting time rate offers some compensation to the driver for working at such times.

IPART's suggestion of setting the rate to cover only the driver's labour cost and fuel costs would mean that a driver would not be compensated for time spent vacant, or operators compensated for the costs of licence leases, network fees and other costs.

Changing the waiting time rate to \$25 per hour would alter the incentives to drivers and costs to passengers. Drivers would become more frustrated in heavy traffic, and if the distance rate were increased to compensate then passengers who take longer journeys would end up paying proportionally more. Taxi drivers may be less inclined

to work in congested areas and at times when delays due to congestion can be significant such as at the airport and during peak traffic periods.

It is also important to consider the public's level of tolerance regarding a waiting time rate that they consider reasonable.

The NSW Taxi Council considers the current balance between fare components including the waiting time rate to be appropriate and well accepted.

Item 39: are there any reasons why the luggage fee should be retained?

The NSW Taxi Council believes that taxi drivers should be entitled to payment for assisting passengers with their luggage. If the luggage fee were to be removed then another fare component would need to be adjusted to compensate. Such a calculation would be difficult to achieve.

The luggage fee should therefore be retained and should be adjusted from time to time in rounded amounts to keep up with changes in taxi fares.

Item 40: What is an average fare for urban and country areas?

IPART is correct in stating that translating cost information into fares is problematic. In particular it is very difficult to derive a method of allocating the indirect costs of operating a taxi to passengers who are charged mainly using variable rates based on time and distance travelled.

There are also difficulties in obtaining reliable information on what is the average fare.

The NSW Taxi Council notes that the highest and lowest estimates of the average urban fare distance presented in the issues paper come from submissions written by the same author and apparently there are also significant differences between data supplied and the submission written at the same time. The verified data sources provide much more consistent information to indicate that the current assumption of 7 km is reasonably accurate for urban fares.

Estimates of the percentage of fares that are for booked journeys are likely to vary widely due to the wide variation between different parts of Sydney. Obtaining a consistently reliable estimate is extremely difficult.

It very plausible, given increasing traffic congestion, that the average amount of waiting time has increased due to increased traffic congestion. Data collected by PWC supports this although it is difficult to have confidence in this result due to the possible misinterpretation of the questionnaire by respondents.

Based on our knowledge of the industry, we do firmly believe that booked fares comprise significantly more than 50% of fares for country taxis in all areas, as indicated by the PWC survey which probably provides a reasonably accurate result.

The estimate provided from the PWC survey for the distance covered by the average country fare is also likely to be a reasonable estimate.

Waiting time in the country is likely to vary from town to town quite significantly. It seems that the estimates obtained from the survey are too high which may be due to ambiguity of the survey questionnaire.

Item 41: Should IPART consider using an alternative approach for setting fare components, such as a basket of typical taxi fares?

IPART has suggested using a basket of fares and applying a weight to each fare to derive a different type of average fare. However there is currently no means of determining the weighting for each fare in such a basket.

During previous reviews the NSW Taxi Council has advocated for the percentage adjustment to be applied as equally as possible to each component of the taxi fare to ensure that the increase is applied as evenly as possible to every individual fare. This is the only way to achieve equal treatment for all passengers and all taxi drivers.

In previous years IPART has added the suggestion that a shadow fare be tracked to ensure that the successive rounding of the fixed components that must occur does not produce longer-term distortions in the rate of increase of each component. Each year the fare components would be targeted to match as closely as possible the outcome from cumulative adjustments to the shadow fare schedule. In practical terms, we believe this approach would produce the most reliable outcomes over successive fare reviews.

Item 42: What additional information is available that would allow IPART to further consider alternative methods of translating fare increases into the various fare components?

The NSW Taxi Council is not aware of any available information that has not previously been supplied to IPART.

Item 43 Is there any additional evidence that would assist IPART to estimate the revenue earned by a typical taxi.

Apart from the Australian Taxation Office, published earning rate of \$1.06 per kilometre, the NSW Taxi Council is not aware of any additional available evidence that would assist IPART estimate the revenue earned by a typical taxi.

4. Wheelchair Accessible Taxis & Premium Taxis

Item 44: Assuming taxi meters are capable of recording all fare generating trips, should there be an obligation on taxi drivers to provide this information to IPART or the Ministry of Transport so that fares can be set at an appropriate level?

The NSW Taxi Council does not support compulsory reporting from taximeters on various grounds.

- The government would need to provide significant justification for it to compel taxi drivers to provide highly private information. Many taxi drivers would leave the industry if driving a taxi meant they had to pass on highly confidential information about their earnings. Compulsory reporting would have an immediate and devastating effect on the industry and the standard of service the industry could provide
- It is simply not practical for taxi drivers to provide this information. A taxi driver has no control over the taximeter except during their shift, so reports would have to be generated and somehow verified at the end of each shift.
- There are no means available for the MoT or IPART to verify that a shift report was a true record of a complete shift.
- It would be impossible to effectively monitor compliance. Neither the MoT nor IPART have any means of verifying how many shifts any individual taxi driver has worked.
- 6200 taxis driving 10 shifts per week for 52 weeks per year will generate more than 3 million shift reports per annum. The cost of collecting and compiling this information would be prohibitive. This also raises the question of who pays the cost.
- Compulsory reporting would result in drivers finding ways around the system to avoid giving up their personal information. The validity of reported information would be highly compromised.
- Whenever a meter is serviced or cleared the information stored in it is lost. This means that no-one can really guarantee that information sought by the MoT will be available and the MoT could not effectively enforce the reporting requirement.

Item 45: What are the differences between the upfront and running costs of WATS and standard taxi services and to what extent does current initiative, such as the \$1000/free licences offset any additional costs?

The NSW Taxi Council would like to point out the inconsistency in the data presented for comparing WAT pick-up times with other taxi pick-up times presented in table 4.1 of the issues paper. Key Performance Indicators for Zero200 are not directly

comparable with that for other taxis due to a significant difference in the manner in which bookings for taxis are treated.

Data supplied for other taxis in the table does not include the number of bookings for which there was “no car available” (NCA). Typically this figure represents up to 3% of bookings received for other taxis. An NCA occurs when no taxi driver accepts the booking. Taxi networks have their own protocols and procedures for dealing with different types of bookings, however at the end of the process if no driver has accepted the booking it is eventually removed from the despatch system. The network standards recognise this and NCAs form part of the key performance indicators (KPIs) reported to the Ministry of Transport. It should be noted that an NCA does not necessarily mean that the intending passenger (not using a wheelchair) did not obtain a taxi.

The despatch of bookings for Zero200 is quite different due to the different needs and options available for their passengers. Zero200 will keep trying to despatch each booking until a taxi accepts the booking regardless of how long the process may take. The level of service provided for WAT passengers is much more intensive than that provided for other passengers because these passengers have fewer options available, for example to hail a passing taxi.

The different practices are designed to ensure that WAT passengers are provided with the best possible response times, however, it also results in statistics that are systematically biased. The Zero200 statistics will include a number of bookings that are picked up after 60 minutes whereas other taxi networks will not because their protocols and the definitions of key performance indicators mean that such bookings are reported separately. This means the data presented in table 4.1 for WATS and other taxis is not directly comparable.

The NSW Taxi Council has not sought verifiable data on the costs of operating WAT taxis but can offer the following as a guide.

The major differences in costs between a WAT and a non-WAT are as follows:

- Cost of vehicle and fit-out is approximately \$35 000 more.
- Cost of insurance is proportionally more
- Cost of smash repairs is significantly higher due to type of vehicle and more expensive parts costs.
- Cost of downtime for repairs is higher due to availability of parts and additional time required to make repairs.
- Cost of maintenance is significantly higher due to type of vehicle affecting cost and availability of parts.
- Fuel costs are higher due to type of fuel used and higher fuel consumption due to type of vehicle.
- Cost of short-term licence is lower due to government subsidising licences.
- In Sydney, there are costs associated with being connected to the centralised booking service (Zero200).
- Revenue for fares is lower due to passenger preference for other types of vehicles.

It is important that drivers are properly compensated for the work involved in providing services to WAT passengers.

The NSW Taxi Council has argued for many years that the Regulations require WAT drivers to perform work for no financial reward and this has acted as a disincentive for drivers to provide services for passengers in wheelchairs.

Unlike for other passengers, a taxi driver is not allowed to charge a passenger in a wheelchair for more than 15 minutes waiting time. Also, unlike for other passengers, the taxi driver is compelled by regulation to turn off the meter when they arrive at the passenger's destination. The driver is not allowed to charge for the time they must spend unloading the passenger from the vehicle.

The IPART issues paper seems to have overlooked the regulation that requires the waiting time at the start of the journey to be capped at 15 minutes for WAT passengers.

As noted in the issues paper, the Ministry of Transport is currently conducting a trial of a fee of \$8.47 for TTSS passengers to see whether the incentive offered by this fee will offset the disincentive effects of the WAT regulations.

The results of the trial will not be known for some time yet.

Item 46: With such large subsidies on offer for WAT licences compared with standard licences, why has the uptake of WAT licences been limited?

There are various reasons why the uptake of subsidised licences has been limited. Some of the key issues are summarised below:

- The licences have particular conditions that restrict change-over hours and which place practical limits on the ability to double-shift the taxi. This limits the revenue generating capacity of the taxi-cab.
- The licence conditions and regulations require the taxi driver to give preference to wheelchair passengers. The taxi's performance in servicing passengers in wheelchairs is reviewed by the Ministry of Transport when an operator applies for a new subsidised licence. These extra compliance responsibilities may act as a disincentive for operators.
- In order to ensure the highest possible service standards, Zero200 has an active compliance program in place that means WAT drivers are subject to greater scrutiny in their day-to-day work.
- There is very limited amount of WAT work available. In Sydney there are on average about 5 Zero200 jobs available per WAT per week. In country areas the situation can be very similar.
- WATS have reduced earning capacity due to passengers' preference for sedans and station wagons.

- Not all taxi drivers are inclined toward or have the skills and temperament suited to providing services to passengers in wheelchairs, so finding drivers can be difficult.
- WAT Operators are faced with higher expenses and longer periods of downtime for repairs due to parts availability.

The NSW Taxi Council believes that the subsidised licence scheme is flawed as it does not give the taxi operator a significant stake in the licence which remains undervalued. Unscrupulous operators are provided with a big incentive to try and avoid the licence conditions and simply use the licence as a cheap way to enter the industry. This means a lot of effort must be expended on monitoring and compliance by taxi networks, the NSW Taxi Council and the Ministry of Transport. IPART has made a similar comment in the issues paper regarding the effectiveness of incentives versus enforcement.

The subsidy applies to the operator and is provided for putting a WAT on the road. The subsidy is not directly linked to providing the service required and so is not well targeted.

If WAT licences were sold for market value the operator of the taxi will have a more direct incentive to ensure the licence conditions are being met. The value of the licence will reflect the relative costs and earning capacity of a WAT licence compared to a non-WAT licence for any given fare level. It is likely that service levels would improve and compliance costs would reduce.

Allowing licence values to move in response to the relative earning capacity of the licences would overcome a lot of the difficulties arising from trying to include specific WAT costs in the TCI.

Item 47: Are there other costs or concerns associated with WATs, or wheelchair work specifically, that need to be recognised in the fare setting process?

As outlined earlier in this submission, the complexity of issues involved in trying to incorporate specific information about WATS in the TCI makes it impractical to incorporate in the fare review process.

As indicated above, the current trial of the incentive fee is a practical way of assessing the effectiveness of compensating drivers for the additional costs of serving passengers who use wheelchairs.

Item 48: What impact would a reduction in the waiting time charge have on service levels for WATs?

Clearly, any reduction in fares charged for particular passengers will reduce the incentive for drivers to provide services to those passengers. If the waiting time rate is reduced and no alternative compensation is offered, then WAT passengers may suffer longer delays and there may be a detrimental effect on the industry's ability to meet the Disability Standards for Accessible Public Transport.

The NSW Taxi Council does not support any reduction in the waiting time rate.

Item 49: Should the pick-up time spent loading be capped and if so what is the appropriate level at which to set the cap?

As indicated above, the waiting time for WATs passengers is currently capped at 15 minutes.

It is hard to understand how the cap can be justified on its own when it prohibits a driver from charging for time they may spend providing the required service to the passenger.

The incentive fee trial will provide further information about the effect of offsetting the cap.

Item 50: What level of payment would provide a sufficient incentive to drivers to prioritise wheelchair work?

The results of the WAT incentive fee trial will provide information that will assist in answering this question.

It is too early to tell whether the current incentive is sufficient to make a difference to service levels.

Item 51: Should incentives payments be linked to service quality, for example on-time pick-up?

IPART has commented on some of the effects of having incentive payments linked to the outcomes desired. For example, an incentive payment reducing the longer the passenger has to wait.

Apart from the severe practical difficulties of implementing a fool-proof system, there are significant downsides to the incentives provided by such an approach.

Under such a scheme, the longer a passenger has to wait, the less likely it becomes that a driver will accept the booking. It would be very difficult to persuade drivers to accept bookings once the incentive payment diminishes. This will particularly be the case when the incentive has diminished and this is not due to any fault of the driver who does pick the passenger up. There is nothing to gain for the passenger or the driver in this situation.

As mentioned above, in practice if there was an incentive at stake then there is an incentive for taxi drivers to take advantage of the system and in such cases it would most likely be impossible in practical terms to accurately verify the time the passenger was picked-up.

In practice there are in-built incentives for drivers to pick up passengers as promptly as possible. The vast majority of people (including taxi drivers) want to do their job well and achieve satisfaction from providing a prompt and reliable service. Clearly taxi drivers would prefer to have satisfied customers travelling in their taxi and not be

subject to complaints. There are few reasons for drivers to deliberately delay picking up passengers in most cases so it is unlikely that any financial reward for picking up passengers more promptly would have a significant effect on individual driver behaviour.

Item 52: Is it appropriate for drivers to receive the whole amount of any incentive payment for picking up passengers in wheelchairs or should such a payment be shared between drivers and operators?

The purpose of the incentive is to entice drivers to pick up passengers. Sharing the incentive with operators would dilute the effect of the incentive effect and not contribute to improved service levels.

Item 53: What is the most appropriate means of recovering costs associated with providing WAT services, or incentive payments?

The NSW Taxi Council believes that the government is already providing sufficient incentive but the incentives are being delivered in a relatively ineffective manner through subsidised WAT licences.

By selling taxi licences for their true market value the government can stop subsidising WAT operators and redirect the incentive to taxi drivers.

The NSW Taxi Council advocates for the controlled release of taxi licences, including WAT licences, through public tender or auction according to a formula that is responsive to changes in service delivery standards and the growth in demand for taxi services.

The process used in Queensland provides a practical example of a State government obtaining full market value from sales of WAT licences whilst increasing the proportion of WATS in the taxi fleet.

It is not practical to adjust taxi fares to collect money from all passengers to subsidise WATs passengers as happens in other industries. The adjustment required to individual fares is too small to make any practical difference to pay-ins. If money was to be collected from passengers by taxi drivers then the Ministry of Transport must then levy taxi drivers, for example through fees for renewal of taxi driver authorities.

IPART's suggestion of levying fees on taxi operators is inefficient as the operator has to recoup the money from taxi drivers which in practice will not happen due to the negotiating position of taxi drivers. The result for operators who receive fixed pay-ins would be that taxi drivers would pocket the fare adjustment and taxi operators would end up directly subsidising WAT passengers. This would be an inequitable outcome and cannot be supported by the NSW Taxi Council.

By far the best solution is for the government to sell taxi licences for their true value. This will overcome many of the issues surrounding WATS identified by IPART including:

- Guarantees growth in WAT numbers based on market demand,

- Reduces incentives for operators to avoid responsibilities and hence reduces associated enforcement costs,
- Alleviates competition policy concerns,
- Raises funds including funds that can be directed to incentives to improve WATS service standards.

Item 54: Is a higher booking fee for premium taxis supported? If so, should this fee be capped or determined wholly by the market?

The following edited extract is taken from the NSW Taxi Council submission to the 2004 review of taxi fares in NSW.

“The Taxi Council supports the investigation of a structure similar to the regulations in Queensland and Victoria. In these States, luxury vehicles are defined by make and model and drivers are permitted to charge an additional fee provided the passenger is properly informed of their decision at the time of the booking. The Taxi Council understands that in Queensland the surcharge is an unregulated component of the fare and is currently quoted at \$11.00 including GST. In Victoria the amount is authorised by the Government and is currently also \$11.00.

The extra fare component does not apply to hail or rank fares accepted by luxury vehicles.

Such an arrangement has the benefit of allowing the customer a choice of service and helps ration the allocation of booked luxury taxi services to passengers that are willing to pay a premium.

Currently in New South Wales, the prospect of obtaining a luxury vehicle for no extra cost encourages higher passenger demand for the luxury networks and provides an opportunity for drivers in the luxury fleets to cherry-pick the best jobs whilst allowing the less lucrative jobs to be offered to non-luxury fleets.

The lack of any additional cost means that people booking a luxury taxi have little certainty that the job won't be off-loaded to another network.

The introduction of a luxury surcharge would allow a fairer allocation of work to all drivers, and help offset the extra costs of providing a much more expensive vehicle. It will improve the quality of service for the luxury passengers by increasing the likelihood that a luxury taxi will accept their booking.

There is no disadvantage to the customer since the system simply introduces a wider choice.”

The Taxi Council continues to support the introduction of a premium service fee which should be distinct from the booking fee. A booking fee applies to all taxis, whereas a premium service fee is a fee for an additional level of service.

In order to prevent price-gouging during major events and at particular peak times it is recommended that the premium service fee be capped at an upper limit of \$25, with the limit adjusted annually in line with adjustments to taxi fares.

The proposal will allow participants in the taxi industry to compete with each other and potentially offer a range of services for fees below the capped amount.

The proposal also allows the taxi industry to offer alternative services and provide stronger competition with other transport providers.

Item 55: Are there additional arguments for allowing higher charges or a surcharge for premium taxi services?

The NSW Taxi Council supports the arguments for the premium service charge contained in the issues paper with additional comments provided above.

The NSW Taxi Council supports the introduction of a \$5.00 surcharge where the customer requests the supply of a child restraint with their taxi. Child restraints are currently provided free of charge which means there is no incentive for drivers or operators to provide this additional service. There is a cost involved in supplying the restraint, carrying the restraint (as it occupies valuable luggage space), cleaning and maintenance, taxi drivers' time is involved in fitting and removing the restraint.

None of these costs are able to be recovered by the taxi operator or driver at present, unlike in competing industries such as Hire Cars.

As all taxis are fitted with child restraint anchorage bolts, all passengers also have the option of providing their own child restraint at no additional charge.

The suggested \$5.00 surcharge represents about 6½ minutes at the current waiting time rate which is a reasonable approximation of the costs involved in providing the service.

5. Adjusting Fares for Changes in Productivity

Item 56: What would be an appropriate measure for drivers/operators' productivity, based on available data?

During October 2006, IPART sought submissions responding to issues regarding the method of adjusting taxi fares and taxi driver/operators' productivity.

The NSW Taxi Council provided an extensive submission on these matters at that time.

Our ongoing and principal concern has been the issue of how to define productivity for taxi operators/drivers in terms that can be measured. Despite significant effort, it seems no one has yet been able to define how productivity for taxi drivers and operators can be measured in a reliable manner. Indeed, no-one seems to have been able to define how either of the factors upon which productivity is based (output and input) can be measured for taxi operators and taxi drivers.

A substantial majority of taxi operators and taxi drivers who responded to the PWC survey indicated that the number of fare-generating kilometres had either remained unchanged or decreased. Only 13% of operators and 11% of drivers reported any increase in fare-generating kilometres.

By this measure, the PWC survey provides no support for the case that taxi operators and taxi drivers have been able to make any significant improvements in productivity during the last twelve months.

Item 57: If operator and driver specific productivity measures are not feasible, how should IPART allocate the productivity adjustment between drivers and operators?

As outlined in the issues paper and in previous submissions, one of the advantages of using the TCI is that many industry-specific productivity measures are already captured by the index.

In its October 2006 submission the NSW Taxi Council recommended that further evaluation is required before applying a small industry-specific X-factor to the labour component of the TCI.

By identifying the respective labour components of operator and driver costs, productivity adjustments can be allocated to each.

Despite considerable effort by IPART and other stakeholders in recent years the difficulties regarding productivity remain vexed.

The NSW Taxi Council remains concerned by the potential for errors in any industry-wide assessment of productivity for taxi operators and taxi drivers and the potentially

serious ramifications of errors being translated to taxi fares affecting the industry's ongoing viability.

As outlined in our 2006 submission, including a productivity factor in the fare review does not provide any additional incentive for drivers or operators to innovate as assumed by IPART. If anything it seems more likely to lead to reduced labour productivity as drivers will tend to work longer less productive hours to recoup foregone earnings.

IPART has not commented on the impact that productivity improvements are likely to have on service quality in the taxi industry. For example the detrimental effect that less vacant time for drivers would have on the response times for passengers.

6. Fare Adjustment for 2008.

Current taxi fares include a factor to compensate the industry for the delayed introduction of the fare adjustment in 2007. It is anticipated that IPART will remove this factor at the same time as it applies the cost-based increase to taxi fares in 2008.

The increase applied in 2007 was equivalent to 0.93% of the fare to which it was applied (the 2006 fare) and this amount is equivalent to 0.87% of the current fare. It is our understanding this is the percentage that would need to be applied to the current fare to remove the adjustment factor.

The following tables present the urban and country taxi cost indices as at the end of February 2008 and compares the outcomes based on the weightings proposed by PWC compared to those proposed by the NSW Taxi Council. There is very little difference in the outcome under each model. The urban TCI indicates that costs in the urban area have increased by 4.18% (4.22% using PWC weights) and in Country areas costs have increased by 4.00% (4.04% using PWC weights).

Suggested new fare components have not been presented here because the final cost figures will not be known until all data is available for the full year including March 2008. As IPART has indicated it will release a draft final report for comments during April 2008, it is anticipated the NSW Taxi Council will have an opportunity to comment on the details of how the fare adjustment is applied to the final fare components at that stage of the process.

The individual cost weightings in the following summary tables reflect the data and comments discussed in response to Chapter 2 of the IPART Issues Paper.

The cost inflators are those adopted by IPART in the 2007 review of taxi fares with the following exceptions.

ABS data is only available up until the December Quarter 2007, so the average for 2007/2008 is based on three quarters of data and will need to be adjusted when the fourth quarter data becomes available.

Fuel costs are based on data collected by the NSW Taxi Council published on the Gogas website as in previous years. Data is only available until the end of February 2008. The March figures will be included when available and provided to IPART.

Taxi Licence lease costs are based on actual lease cost data supplied by taxi networks up until the end of February 2008, further data can be supplied when available.

Driver entitlements are based on the amounts prescribed by the Contract Determination instead of the Wage Price Index or Non-Wage Price Index discussed by IPART.

URBAN TAXI COST INDEX

Urban Operator Expenses	2007 Index	2008 Index	Index Change	2008 PWC Weight	2008 NSWTC Weight	2008 PWC Contribution to total fare change	2008 NSWTC Contribution to total fare change
Fixed Costs							
Vehicle Lease payments	\$8,296	\$8,292	-0.05%	2.14%	4.28%	0.00%	0.00%
Insurance	\$14,958	\$15,082	0.83%	7.04%	7.72%	0.06%	0.06%
Network Fees	\$5,772	\$5,823	0.89%	3.41%	2.98%	0.03%	0.03%
Plate Lease cost	\$24,626	\$27,262	10.70%	13.00%	12.90%	1.39%	1.38%
Variable Costs							
Maintenance							
Labour	\$4,368	\$4,513	3.33%	2.27%	2.25%	0.08%	0.08%
Vehicle Parts & Panels	\$ 6,018	\$6,295	4.60%	2.61%	3.11%	0.12%	0.14%
Operator Salary							
Equivalent	\$15,388	\$15,900	3.33%	5.00%	7.94%	0.17%	0.26%
Driver entitlements	\$8,926	\$9,269	3.84%	4.22%	4.61%	0.16%	0.18%
Other Operator Costs	\$7,127	\$7,255	1.79%	5.36%	3.68%	0.10%	0.07%
Driver Expenses							
LPG Fuel	\$15,440	\$16,586	7.42%	7.16%	7.97%	0.53%	0.59%
Notional Driver's Wages	\$79,326	\$81,967	3.33%	47.79%	40.93%	1.59%	1.36%
Other Driver Costs	\$3,182	\$3,239	1.79%	0.00%	1.64%	0.00%	0.03%
Total	\$193,427	\$201,483		100.00%	100.00%	4.22%	4.18%

COUNTRY TAXI COST INDEX

Country Operator Expenses	Mar-07	Mar-08	Index Change	2008 PWC Weight	2008 NSWTC Weight	2008 PWC Contribution to Fare Change	2008 NSWTC Contribution to Fare Change
Fixed Costs							
Vehicle Lease payments	\$8,965	\$8,961	-0.05%	2.25%	4.11%	0.00%	0.00%
Insurance	\$8,521	\$8,592	0.83%	4.27%	4.93%	0.04%	0.04%
Network Fees	\$11,427	\$11,912	4.25%	5.06%	6.59%	0.22%	0.28%
Plate Lease cost	\$19,700	\$21,809	10.70%	10.77%	10.97%	1.15%	1.17%
Variable Costs							
Maintenance Labour							
Vehicle Parts & Panels	\$6,071	\$6,350	4.60%	1.76%	2.35%	0.08%	0.11%
Operator Salary							
Equivalent	\$14,415	\$14,895	3.33%	5.78%	9.42%	0.19%	0.31%
Other Operator Costs	\$3,545	\$3,608	1.79%	5.99%	6.10%	0.11%	0.11%
Driver Expenses							
LPG Fuel							
Driver entitlements	\$14,893	\$15,620	4.89%	6.29%	8.29%	0.31%	0.41%
Notional Drivers' Wages							
Wages	\$80,546	\$83,228	3.33%	51.03%	44.84%	1.70%	1.49%
Total*	\$176,327	\$184,538		100.00%	100.00%	4.04%	4.00%

