

**New South Wales Taxi Council**

**Submission to**

**The Independent Pricing and Regulatory Tribunal**

**Review of Taxi Fares in New South Wales 2005**

March 2005

## Table of Contents

<b>1</b>	<b>INTRODUCTION</b>	<b>1</b>
<b>2</b>	<b>STANDARDS OF QUALITY RELIABILITY AND SAFETY.</b>	<b>2</b>
<b>3</b>	<b>TAXI INDUSTRY COST INDEX MODEL</b>	<b>2</b>
3.1	Cost Index Weightings	2
3.2	Cost Index Items	2
3.3	Fare Structure	4
3.4	Suggested Fares	5
3.5	Cost changes measured in the urban index	6
3.6	Cost changes measured in the Country Index	7

# 1 Introduction

The Independent Pricing and Regulatory Tribunal (the Tribunal) has asked the New South Wales Taxi Council to submit substantiated information regarding changes in the cost of providing taxi services in New South Wales. The Council has provided the Tribunal with evidence to substantiate changes in individual cost items and measures the effect on total costs using a cost index model developed by PriceWaterhouseCoopers.

During 2004, the Tribunal asked the Taxi Council to respond to a number of questions regarding the frequency of data collection, the variation in some items and the number of quotes obtained from some locations.

In response, the Council agreed to increase collection frequency for a range of items and to obtain more quotes for some other items where possible. The Taxi Council acknowledges that it is in the industry's long-term interest to ensure that fare adjustments are made on the basis of accurate and reliable data.

The Tribunal has elected not to publish an issues paper ahead of the 2005 review. The Taxi Council considers this to be a reasonable decision given the following circumstances:

- In recent years the majority of issues raised during the fare reviews have related to the weightings used in the cost index model. The Tribunal has previously decided against adjusting the weightings used in the cost index model without a more complete review. In the absence of new information arguments regarding item weightings do not need to be re-visited during the current fare review.
- The Ministerial Inquiry into Wheelchair Taxi Services and the Taxi Industry Task Force are currently investigating issues relating to service quality, premium services and WAT services as part of the current review of industry reforms. It is unnecessary for the Tribunal to make recommendations to the Ministry of Transport on these matters when they are already under review by the Ministry itself. Furthermore it would be inappropriate for the Taxi Council (which is represented on the WATS Inquiry and the Task Force) to be simultaneously canvassing issues publicly during the fare review whilst they are also being dealt with in-confidence within the Ministry of Transport's reviews.
- The only remaining significant issues of concern to the Tribunal relate to data collection. These issues relate directly to the information obtained and provided by the Taxi Council. The Tribunal has raised these issues in direct correspondence with the Taxi Council and the Council has responded accordingly.

Given the above circumstances, the Taxi Council considers that an issues paper would have only resulted in duplication of effort.

## **2 Standards of Quality Reliability and Safety.**

The Tribunal's terms of reference require it to take account of standards regarding quality, reliability and safety of services under consideration.

The issues surrounding the quality, reliability and safety of taxi services, along with a range of other matters are currently being dealt with by the Ministerial Inquiry into Wheelchair Taxi Services and the Taxi Industry Inquiry/Task Force processes.

It is appropriate that any views on these matters should be presented to the Task Force separately rather than as part of a report on the review of fares.

The Taxi Council's cost index does not take account of changes in quality, reliability and safety and for the reasons explained above these matters have not been addressed in this submission to the fare review.

## **3 Taxi Industry Cost Index Model**

### ***3.1 Cost Index Weightings***

The items and the weightings used in the taxi industry cost index presented with this submission are the same as adopted by the Tribunal in 2004.

The weights were tested by arguments presented by the Transport Workers Union and the NSW Taxi Council during the 2004 review of taxi fares. The Taxi Council is not aware of any new information becoming available during the last twelve months to provide a systematic basis for modifying the weights originally accepted by the Tribunal.

In absence of new verifiable information the Council does not expect the Tribunal will revisit the issue as part of the current fare review.

### ***3.2 Cost Index Items***

The following comments are provided regarding individual cost index items. Where items are not listed here, there has been no change in the approach adopted for data collection or presentation since the Taxi Council's 2004 submission. Full details on all the cost items used to make up the index including quotations from suppliers have been provided to the Tribunal as commercial-in-confidence information and are provided under separate cover.

#### **Annualised Establishment Costs**

In response to concerns raised by the Tribunal during 2004, more evidence has been obtained to support the data presented in the annualised establishment costs item.

Additional quotations have been obtained to verify the cost of LPG conversion of motor vehicles. The number of quotes obtained for Sydney has been doubled from 3 used in 2004, to 6 for 2005. The Sydney prices are weighted by the number of taxis and represent about 93% of the weight of the cost of LPG conversion in the index. In total, 9 independent quotations have been provided to the Tribunal to support this part of the establishment cost item.

### **Maintenance Labour**

Additional quotations have been obtained for the rates charged by service centres in the Sydney metropolitan region. Previously only one quote was provided for Sydney and 9 quotes were provided to cover country areas. For the current submission the Taxi Council has submitted 4 quotes for Sydney and as in previous years 9 quotes for country areas. Because the Tribunal has previously expressed concern regarding movements in labour costs, quotations for this item were provided to the Tribunal during February 2005 to enable the Tribunal to verify this item in a timely manner.

### **Insurance**

Workers Compensation Premiums are based on the rate listed in the NSW Government Insurance Premiums Order. The rates for 2004 and 2005 have been adjusted to remove the 3% loading for removing the insurance excess. The country rate for 2004 has also been amended to correct an error that appeared in the 2004 table. These changes have been made to simplify verification and have no effect on the movement in costs from one year to the next and hence no impact on the outcome of the model.

### **Consumer Price and & Labour Cost Index items**

Items that are adjusted by ABS indexes have been adjusted to take account of the movement in those indexes from the date of the data used by the Tribunal for the 2004 fare review. The most recent available data has been used and generally this encompasses the period March 2004 to December 2004.

### **Tyres**

In response to a request from the Tribunal for more information, three independent quotations have been obtained and provided for the cost of the same model and size of tyre used in previous years. In previous years only one quotation was provided.

### **Other Matters**

The Taxi Council has provided the Tribunal with further information including additional quotations for some items not listed above to provide more representative base cost information for measuring cost movements between 2005 and 2006.

### **3.3 Fare Structure**

During 2003, the components of urban taxi fares were significantly re-weighted through the reduction in the radio booking fee from \$1.25 to \$1.10.

The NSW Taxi Council opposed this change but did not have sufficient opportunity to explain its point of view prior to the release of the final report. The Taxi Council maintains the change was detrimental for taxi passengers as it reduced the incentive for drivers to accept hirings offered via the network booking service.

The No Destination trial was subsequently introduced with the aim of redressing perceived problems created by taxi drivers not accepting booked hirings when they considered them to be economically unviable. To increase the incentive, the radio booking fee was increased by \$0.30c for the duration of the trial. The trial was later abandoned and the booking fee was reduced by \$0.30c on 17<sup>th</sup> December 2004.

The Tribunal did not need to reconsider the original reduction because the issue was effectively redressed by the time the 2004 review was conducted. The Tribunal had no reason to anticipate the Ministry of Transport's decision to cut short the trial and reduce the booking fee before the 2005 review of taxi fares.

The Taxi Council has consistently stated that the original ratios between fixed and variable components of the fare were reasonably proven in practice. It is the Council's view that there has never been a rational argument to provide any basis for altering the ratios that prevailed during 2002.

The fare adjustment that was made during 2003 was inequitable as the effect of the change in percentage terms varied widely depending on the nature of the journey. For a short booked journey the fare adjustment resulted in a decrease in fare. This had an adverse affect on the incentive provided to drivers to accept hirings for passengers who were booking a journey that covered only a short distance. Ideally fare adjustments should be made in a manner that treats all passengers and drivers as equitably as possible and affects all types of fares as evenly as is practicable.

Prior to considering a fare adjustment to reflect cost changes in the most recent year, the Tribunal should work from a theoretical fare that restores the ratio of booking fee to distance rate that applied prior to the changes that occurred in 2003.

From 22 July 2002, the booking fee was \$1.25 and the distance rate was \$1.45, a ratio of 0.86.

To most accurately restore the incentive to accept radio bookings the booking fee should be restored to 0.86 times the current distance rate. This

can then be used as the base from which fares can be adjusted to take account of cost changes in the most recent year.

The current distance rate is \$1.56 and using the above ratio the booking fee should be treated as \$1.35 prior to the current year adjustment.

The Taxi Council is not proposing that interim changes be made to actual fares charged by taxi drivers, the adjustment should be a theoretical one to the base that the Tribunal uses for the calculations that underlie its recommendations for new fares in 2005.

As argued in previous submissions to the Tribunal, the percentage fare adjustment should thereafter be applied as equally to each component as is practicable. Unless a change can be justified for other reasons, the aim should be to ensure that the balance of costs and incentives between competing types of journey is not significantly modified as part of a fare increase.

### **3.4 Suggested Fares**

Using the above as a base and applying the cost increases measured in the cost index model the following fares would be currently justified.

#### **Urban Fares:**

Flagfall:	\$2.85
Tariff 1 Distance Rate:	\$1.61
Booking Fee:	\$1.40
Waiting time	\$41.40 per hour
Average fare	\$16.47
Increase	3.02%

#### **Country Fares:**

Flagfall	\$3.30
Tariff 1 Distance rate (<12 Km)	\$1.66
Tariff 1 distance rate (>12 Km)	\$2.32
Booking fee	\$0.90
Waiting time	\$42.23 per hour
Average fare	\$10.84
Increase	3.24%

### 3.5 Cost changes measured in the urban index

#### URBAN TAXI COST INDEX

Urban Operator Expenses	Jun-04	Jan-05	Index Change	IPART March 2004	New Cost	1999 Index Weight	Contribution to total fare change
<b>Fixed Costs</b>							
Vehicle Lease payments	\$9,466	\$9,934	4.94%	\$9,545	\$10,017	4.79%	0.24%
Insurance	\$13,665	\$14,299	4.64%	\$13,692	\$14,327	6.22%	0.29%
Govt Charges	\$786	\$797	1.40%	\$786	\$797	0.46%	0.01%
Network Fees	\$6,812	\$6,853	0.60%	\$6,812	\$6,853	3.41%	0.02%
Plate Lease cost	\$22,398	\$20,144	-10.07%	\$22,397	\$20,143	14.17%	-1.43%
Annualised Establishment Costs	\$1,866	\$1,848	-0.95%	\$1,519	\$1,505	0.60%	-0.01%
<b>Variable Costs</b>							
Maintenance Labour	\$9,477	\$10,383	9.56%	\$7,963	\$8,724	4.08%	0.39%
Vehicle Parts & Panels	\$11,320	\$11,371	0.45%	\$11,320	\$11,370	5.20%	0.02%
Cleaning	\$420	\$480	14.29%	\$420	\$480	0.23%	0.03%
Tyres	\$3,033	\$3,306	8.97%	\$3,034	\$3,306	1.61%	0.14%
Operator Salary Equivalent	\$13,520	\$13,966	3.30%	\$13,520	\$13,966	7.28%	0.24%
Driver entitlements	\$4,005	\$4,165	3.99%	\$4,005	\$4,165	2.17%	0.09%
Uniforms	\$2,428	\$2,415	-0.54%	\$2,421	\$2,408	1.50%	-0.01%
Other	\$3,675	\$3,736	1.67%	\$3,675	\$3,736	2.03%	0.03%
<b>Driver Expenses</b>							
LPG Fuel	\$13,296	\$16,066	20.84%	\$13,391	\$16,182	8.35%	1.74%
Notional Driver's Wages	\$67,069	\$69,283	3.30%	\$67,069	\$69,282	36.14%	1.19%
Cleaning	\$3,016	\$3,066	1.67%	\$3,016	\$3,066	1.77%	0.03%
<b>Total</b>	\$186,253	\$192,111		\$184,585	\$190,327	100.00%	3.02%
<b>Operator Component</b>	\$102,872	\$103,696		\$101,109	\$101,797	53.74%	0.06%
<b>Driver Component</b>	\$83,381	\$88,415		\$83,476	\$88,530	46.26%	2.96%
<b>Total</b>	\$186,253	\$192,111		\$184,585	\$190,327	100.00%	3.02%

Using information currently available, the cost index provides justification for an adjustment in urban taxi fares of 3.02% to maintain sufficient returns and offset cost increases that have affected urban taxi operators and taxi drivers since the last fare review.

During the review process, the Taxi Council will continue to provide information to the Tribunal as it becomes available so that the most current information can be utilised in the Tribunal's recommendations.



### 3.6 Cost changes measured in the Country Index

#### COUNTRY TAXI COST INDEX

Country Operator Expenses	Jun-04	Jan-05	Index Change	IPART March 2004	New Cost	1999 Index Weight	Contribution to total fare change
<b>Fixed Costs</b>							
Vehicle Lease payments	\$9,171	\$9,883	7.77%	\$9,171	\$9,883	5.84%	0.45%
Insurance	\$7,407	\$8,113	9.52%	\$7,514	\$8,229	4.90%	0.47%
Govt Charges	\$786	\$797	1.40%	\$786	\$797	0.59%	0.01%
Network Fees	\$10,552	\$10,820	2.54%	\$10,527	\$10,794	6.92%	0.18%
Plate Lease cost	\$12,147	\$10,924	-10.07%	\$12,146	\$10,923	10.08%	-1.01%
Annualised Establishment Costs	\$760	\$753	-0.95%	\$760	\$753	0.48%	-0.00%
<b>Variable Costs</b>							
Maintenance Labour	\$6,952	\$7,621	9.62%	\$6,916	\$7,582	4.06%	0.39%
Vehicle Parts & Panels	\$5,888	\$5,914	0.45%	\$5,888	\$5,914	3.00%	0.01%
Cleaning	\$2,319	\$2,358	1.67%	\$2,364	\$2,403	2.38%	0.04%
Tyres	\$2,167	\$2,361	8.97%	\$2,167	\$2,361	1.48%	0.13%
Operator Salary Equivalent	\$13,520	\$13,966	3.30%	\$13,520	\$13,966	9.40%	0.31%
Uniforms	\$2,421	\$2,408	-0.54%	\$2,421	\$2,408	1.94%	-0.01%
Other	\$3,392	\$3,449	1.67%	\$3,392	\$3,448	2.42%	0.04%
LPG Fuel	\$11,658	\$12,970	11.26%	\$11,524	\$12,821	9.06%	1.02%
<b>Driver Expenses</b>							
Notional Driver's Wages	\$52,845	\$54,588	3.30%	\$52,845	\$54,589	36.79%	1.21%
<b>Total</b>	\$141,984	\$146,925		\$141,941	\$146,874	99.34%	3.24%
<b>Operator Component</b>	\$89,139	\$92,336		\$89,096	\$92,285	62.55%	2.02%
<b>Driver Component</b>	\$52,845	\$54,588		\$52,845	\$54,589	36.79%	1.21%
<b>Total</b>	\$141,984	\$146,925		\$141,941	\$146,874	99.34%	3.24%

Using information currently available, the cost index provides justification for an adjustment in country taxi fares of 3.24% to maintain sufficient returns and offset cost increases that have affected country taxi operators and taxi drivers since the last fare review.

During the review process, the Taxi Council will continue to provide information to the Tribunal as it becomes available so that the most current information can be utilised in the Tribunal's recommendations.