

## INQUIRY INTO NSW TAXI INDUSTRY

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The Hon John Ajaka MLC  
C/- The Director  
Select Committee on the NSW Taxi Industry  
Parliament House  
Macquarie St  
Sydney NSW 2000

Dear Mr Ajaka

## **SUBMISSION TO THE SELECT COMMITTEE ON THE NSW TAXI INDUSTRY**

Thank you for your invitation to make a submission to the inquiry into the NSW taxi industry. As the independent pricing regulator, we have a role in reviewing the fares for taxi services in NSW each year and making a recommendation to the Minister for Transport on changes to those fares. This submission is intended to provide the Select Committee with an understanding of our role and the current approach to reviewing taxi fares.

It is important to note that we do not regulate the earnings of taxi drivers. How much drivers earn is determined by the fares they collect and their costs. Our recommended fares are one factor that influences the value of the fares drivers collect but there are other important factors such as the supply and demand for taxi services. Driver costs are largely unregulated with the exception of the maximum pay-in that taxi operators can charge drivers. This is governed by an Industrial Relations Contract Determination.

The NSW taxi industry comprises several layers of market participants, each with varying levels of market power and vulnerability to taxi fare outcomes. Submissions received during our fare reviews have identified unequal market power, the limited accountability of networks and the lack of transparency within the taxi industry as issues of concern for industry participants and for taxi drivers in particular.

In addition to these wider industry concerns, there are a number of specific issues relating to industry transparency that impact on our ability to effectively regulate taxi fares.

- ▼ Lack of industry data - There is no single set of reliable taxi usage or driver revenue data on which to base analyses. Similarly, there is no comprehensive data on passenger demand for services or data that describes the travel patterns of passengers or describes an average taxi trip. This lack of data makes any attempt to reconcile costs and earnings problematic.
- ▼ Lack of data on licence lease costs - In NSW, NSWTI records the value of all licence plate transfers but while they require lease arrangements to be registered, they do not collect

information on the value of leases. We have previously recommended that NSWTI collect lease cost information in order to provide an independent source of data.

- ▼ Concerns about network fees - There is limited competition in the market for network services. Network fees are unregulated and are not publicly reported and to date we have been unable to determine whether or not network costs are higher than would be considered efficient in a competitive market.
- ▼ Aggregated network performance data - NSWTI has recently begun to publish KPI information relating to performance benchmarks on its website at an aggregated level and has provided data to us on condition that this data is again reported at an aggregated level. We are not aware of any other industry that publicly prescribes minimum service standards but treats actual performance outcomes as confidential.

The attached document provides further information about our approach to calculating recommended fares for taxi services in NSW. Detailed reports on past taxi fare reviews may also be of assistance and are available on our website at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

Should you wish to discuss any aspect of our submission further, please do not hesitate to contact Ineke Ogilvy, the Program Manager responsible for the review of taxi fares on

Yours sincerely



James Cox  
Acting Chairman and  
Chief Executive Officer

## SUBMISSION

# Submission to the Select Committee Inquiry into the NSW Taxi Industry

January 2010

This submission is provided at the invitation of the Select Committee on the NSW Taxi Industry. The submission outlines the Independent Pricing and Regulatory Tribunal's approach to fare setting for taxis in NSW.

The sections below describe our role, discuss why we use the approach we have chosen (an industry cost index) and how the taxi cost index works. We also provide a description of the cost items included in the cost index and how we estimate the annual change in each cost item.

### **Our role and approach**

We review the fares for taxi services in NSW each year, and recommend to the Minister of Transport how much maximum fares should increase (or decrease) compared to the previous year's maximum fares to ensure that customers do not pay more than the cost of providing the service. We do this by assessing the increase (or decrease) in the costs of providing taxi services to passengers that have occurred over the previous twelve months using an industry specific cost index, known as the Taxi Cost Index (TCI). The Director General of NSW Transport and Infrastructure (NSWTI) determines the actual maximum fares that will apply after considering our recommendations.

### **Why we use a cost index approach**

We use a cost index approach to regulate NSW taxi fares because we consider this approach to be most appropriate for the NSW taxi industry. There are around 5,000 taxis - which means that building up costs on an industry wide basis, as is traditionally done in most other regulated industries would not be appropriate.

Our approach is consistent with those of other Australian regulators, all of which use some form of index to determine increases in taxi fares. For example, like us, regulators in the ACT, Queensland, South Australia and the Northern Territory use an industry-specific cost index.

## How cost indices work

A cost index measures, in percentage terms, how much the overall cost of providing a particular type of transport service has changed in the 12 months since our last review. There are two parts to the index:

- ▼ a list of costs faced by the industry and their relative importance (weightings)
- ▼ an estimate of how each of these costs changes over time (inflaters).

### Weightings

The index costs and weightings are designed to represent the cost structure of a typical taxi. The cost index consists of a 'basket' of cost items that a typical operator faces in providing transport services - such as fuel, labour and insurance costs. These items are weighted according to the proportion of the overall cost of providing services that they represent. (e.g. if paying wages is half of total costs then it has a weighting of 50%). Typically only significant costs are listed separately; the index usually has an 'other' cost item to capture smaller costs.

Initially the weightings are established by surveying the industry and working out a representative set of costs. We also seek to periodically review the weightings (every 5 years or so) to make sure that the index continues to reflect the cost structure of the industry. Reviewing the weightings periodically or as required allows the index to account for changes in the structure of the industry's costs over time.

In between these reviews, the weightings are adjusted each year for changes in the relative costs of each input - costs that increased by more than the average this year will have a higher weighting next year and costs that increased by less than the average, or fell, this year will have a lower weighting next year. Adjusting the weightings in this way ensures that the index continues to reflect the costs faced by operators from year to year.

### Inflaters

We estimate the change in each cost item using a cost 'inflater', which is expressed as a percentage change. Each cost item has its own 'inflater', which aims to track the movement in this particular cost item over time. Wherever possible, we select inflaters that are:

- ▼ based on independent and verifiable data that is publicly available
- ▼ a reasonable estimate of cost changes for operators.

For example, in the taxi cost indices, the relevant inflater for insurance costs is the change in the insurance services component of the CPI, which is published quarterly by the Australian Bureau of Statistics.

Table 1 shows the weightings and inflators that were established at the end of the 2009 review of taxi fares.

**Table 1 Current weightings and inflators for cost items for the urban and country TCIs**

Cost item	Weighting (%of overall cost)		Inflator
	Urban TCI	Country TCI	
<b>Driver costs</b>			
Notional drivers' wages	39	42	WPI (productivity adjusted)
Notional self-funded entitlements	1.4	6.3	WPI (productivity adjusted)
Driver superannuation	4	4.3	WPI (productivity adjusted)
LPG fuel	7.2	-	Fueltrac LPG daily price data
Other drivers' costs	2.4	1.6	CPI
<b>TOTAL DRIVERS' COSTS</b>	<b>54.1</b>	<b>54.3</b>	
<b>Operator costs</b>			
Operators' salary equivalent	6.8	7.4	WPI (productivity adjusted)
Driver entitlements in the Contract Determination	4.4	-	IRC determination cost
LPG fuel	-	6.9	Fueltrac LPG daily price data
Maintenance costs	4.8	4.1	CPI (motor vehicle repair and servicing)
Plate lease costs	13.7	11.4	Quotes provided by NSW Taxi Council
Insurance	7.7	4.7	CPI (insurance services)
Vehicle lease payments	2.3	2.5	CPI (motor vehicles)
Network fees	3.2	4.7	Weighted average of urban network fees
Other operators' costs	3	4.1	CPI
<b>TOTAL OPERATORS' COSTS</b>	<b>45.9</b>	<b>45.7</b>	
<b>TOTAL</b>	<b>100</b>	<b>100</b>	

### Calculating the change in overall costs

At the start of each review, we establish the relative weighting for each cost item in the cost index, and the value of its inflator. We then multiply the weighting by the inflator value for each cost item individually, to calculate the change in overall costs that cost item represents (i.e. the contribution of any increase or decrease in the cost

item since the last review to the overall change in the cost of providing the service). The sum of all these provides the increase in overall costs faced by the industry. This is the total change in the cost index.

## The Taxi Cost Index

The Taxi Cost Index (TCI) incorporates the major costs involved in providing taxi services in NSW. These costs are:

- ▼ labour costs (of drivers and operators)
- ▼ fuel costs
- ▼ network fees
- ▼ license plate lease costs
- ▼ vehicle costs (including maintenance, insurance, vehicle lease costs)
- ▼ other costs.

There are separate TCI's for urban and country taxis. Each TCI includes the same cost items but the cost items are weighted differently to reflect the different cost structure of urban and country taxis.

The weightings are based on an industry wide survey of costs carried out in 2007 supplemented by us where necessary. The inflators we use were selected on the basis that they provide a good indication of how the cost item changes over time. Wherever possible, we use inflators that are based on independent and publicly available information. The major cost items included in the TCI and their inflators are discussed in more detail below.

The TCI categorises all costs as either a driver cost or an operator cost. In most cases, actual earnings from fares are split between drivers and operators according to the 'pay-in' charged by operators for the use of the taxi and not according to the costs allocated in the TCI. In urban areas, the maximum pay-in rate is determined by the NSW Industrial Relations Commission (IRC) and set out in the *NSW Taxi Industry (Contract Drivers) Contract Determination 1984*. Typically, the IRC uses the increase in operators' costs determined by our fare reviews to increase the maximum pay-in each year. While our driver/operator cost allocations do not affect the overall fare outcomes they are important for the IRC process and as a result, are also discussed below where relevant.

### Labour costs

The labour cost items in the TCI include:

- ▼ Driver labour costs (a notional value for drivers' wages, leave entitlements and superannuation)

- ▼ Operator labour costs (a notional value for operators' salary, leave entitlements and superannuation).

Labour costs are estimated the same way in the urban and country TCIs. In each TCI we include a "notional" salary for operators and a "notional" hourly wage for taxi drivers for all hours for which a typical taxi is driven. We also include the cost of leave entitlements for both operators and drivers based on a 15% loading on top of the salary or wage and an additional 9% loading for superannuation. All labour costs are inflated each year by the change in the Wage Price Index (WPI).

However, there are differences between the way we allocate some driver labour costs between drivers and operators in the urban and country TCIs. These differences reflect the different legal obligations in place in urban and country areas.

In the urban TCI the cost of providing leave entitlements to permanent full time taxi drivers specified in the Contract Determination is treated as an operator cost because operators are legally obliged to provide these entitlements to drivers out of their share of fare revenue. The residual value of driver leave entitlements is allocated to drivers (that is, is assumed to be self funded out of the driver share of fare revenue). In the country TCI, all driver labour costs (including entitlements) are treated as driver costs because there is no legal obligation on country operators to provide entitlements for their taxi drivers.

In past reviews taxi drivers have voiced concerns with both the way we have estimated labour costs and the way we have allocated them between drivers and operators. The main concern raised with our approach is that it does not reflect the actual situation faced by drivers, as the vast majority of urban drivers work as bailees and do not receive the wages and entitlements set out in the TCI. In our view, it is important that fares are sufficient to cover a reasonable level of earnings for all taxi drivers irrespective of their industrial/employment status. In order to ensure that this is the case, a "notional" rate of pay and entitlements based on a reasonable rate of earnings must be included for all hours for which a typical taxi is driven.

## LPG Fuel

The TCI is designed to capture changes in fuel costs from year to year. We use daily market prices for fuel to inflate the LPG fuel cost item of the TCI.

In 2008, in response to drivers' concerns about the impact of rising LPG prices, we began a process of mid-year reviews of fuel cost changes under which we recommend a mid-year fare increase or decrease if fuel prices are found to have changed (up or down) by more than 10%. Although this review resulted in us recommending a mid year fare change in both 2008 and 2009, the Director General of NSW Transport and Infrastructure (NSWTI) did not accept either recommendation. We intend to reconsider whether this measure should be retained for future reviews in our next fare review.



## **Network fees**

The network fee cost item is based on the actual level of network fees paid. We inflate this cost item using data on actual network fees provided directly by urban taxi networks. While actual network fee data has the advantage of specifically measuring actual network costs, it is not publicly available and is provided by the networks themselves. We are continuing to explore options for estimating the change in network fees using an independent (non-industry) source of data.

## **License plate lease costs**

The license plate lease costs item was re-set in 2007 based on the average actual cost of leasing a license captured in the industry wide survey. It is inflated using quotes provided by the NSW Taxi Council, which we check for reasonableness against publicly available data on advertised leases. We have considered several alternative inflators but found that there was no clear relationship between changes in plate lease costs and other forms of investment or the CPI.


Last year, we recommended that NSWTI collect information on licence lease values so that we could have access to a source of independent information for future reviews. While this has not occurred, we note that there have been recent changes to the process for issuing taxi licences in urban areas. We hope that the new process will provide a useful source of information for future reviews.

## **Maintenance, insurance, vehicle lease and other costs**

The remaining cost items capture the other costs associated with providing taxi services. These costs are inflated by the change in the relevant CPI (CPI Sydney, CPI Insurance Services or CPI Repair and Servicing) as measured by the average index value for the four quarters to 31 March of one year divided by the average index value for the four quarters to 31 March of the previous year.

## **How we translate the change in the TCI to the fare components**

At each review we need to translate the required change in taxi fares into a specific recommendation on the maximum level of individual fare components – flagfall, distance charges, waiting time charge, booking fee and surcharges. We do this by exercising judgment on how individual fare components should change to ensure that the ‘average fare’ in both urban and country areas will change by an amount equal to the change in the TCI. In our view this method should ensure that on average, the industry receives a change in fare revenue that will compensate them for the change in the costs of providing services.



The average fare is based on the cost of a taxi trip with given characteristics including distance travelled, the number of minutes spent on 'waiting time'<sup>1</sup> and the proportion of taxi trips that are pre-booked through a network. We review the trip characteristics that are used to calculate the average fare from time to time to ensure that they reflect a reasonable estimate of an average taxi trip.

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<sup>1</sup> Waiting time is charged when the taxis speed drops below a certain value (currently 26km/hr). For example, time spent in heavily congested traffic or stopped at traffic lights.