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***Annual taxi  
licence  
release  
2012/13  
Discussion Paper***

31 January 2012



Transport  
for NSW

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# *Disclaimer*

This Discussion Paper has been prepared for Transport for NSW.

In preparing the Discussion Paper, PricewaterhouseCoopers (PwC) has only considered the circumstances of Transport for NSW. Our Discussion Paper may not be appropriate for use by persons other than Transport for NSW and we do not accept or assume responsibility to anyone other than Transport for NSW in respect of our Report.

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# Acronyms

<b>Abbreviation</b>	<b>Full text</b>
ABS	Australian Bureau of Statistics
ATDA	Australian Taxi Drivers Association
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CY	Calendar Year
FAL	Fringe Area Licence
FY	Fiscal Year
GSP	Gross State Product
IPART	Independent Pricing and Regulatory Tribunal
KPI	Key Performance Indicator
LPG	Liquefied Petroleum Gas
NCA	No cars available
NSW TC	NSW Taxi Council
NSW TDA	NSW Taxi Drivers Association
PAL	Peak Availability Licence
PTA	Passenger Transport Act
PwC	PricewaterhouseCoopers
SFD	State Final Demand
STGM	Sydney Taxi Growth Model
TfNSW	Transport for NSW
WAT	Wheelchair Accessible Taxi

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# 1. Introduction

## *Terms of reference*

As a result of changes to taxi licensing in Sydney introduced in 2009, Transport for NSW must determine, before 31 March each year, the number of annual licences (excluding WATs) to be released in Sydney for the 12 months from 1 July. Transport for NSW may also seek public submissions before making a determination.

For the 2012/13 determination, PwC has been commissioned to:

- Conduct an analysis of the factors Transport for NSW is to have regard to when determining the number of annual taxi licences to be issued in the Sydney Metropolitan Transport District (Sydney) for the year commencing 1 July 2012;
- Conduct analysis on other specific issues relating to taxi licences in Sydney;
- Consult stakeholders on the factors considered in determining the number of taxi licences to be released, and other relevant matters; and
- Provide a report to Transport for NSW to inform the 2012/13 annual determination, including analysis and recommendations on other specific issues.

The purpose of this Discussion Paper is to obtain stakeholders' views on the most relevant factors to consider in determining the optimal number of licences and the type of licences to be issued for the year commencing 1 July 2012. It also considers the method of release for annual taxi licences and the method to determine annual licence fees.

The questions in the Discussion Paper have been prepared to assist stakeholders in their written submissions.

## *How to participate*

Interested parties are invited to make written responses to the questions raised in this Discussion Paper.

We would prefer to receive them by email: [taxilicence@transport.nsw.gov.au](mailto:taxilicence@transport.nsw.gov.au)

You can also send comments by fax to 02 8202 3891, or by mail to:

### **Discussion Paper - 2012/13 Annual Taxi Licence Release**

Transport for NSW  
PO Box K659  
Haymarket NSW 1240

PwC and Transport for NSW strongly encourage stakeholders to submit supporting data along with submissions, particularly if this could assist in achieving greater reliability in measures of passenger and industry demand for taxis.

***Submissions will be received until 5pm, Tuesday 14th February 2012.***

**Submissions will be published on the Transport for NSW website.**

## 2. Context to this discussion paper

In 2009, the NSW Government announced reforms to taxi licensing in Sydney. As a result of these reforms, Transport for NSW now determines the number of renewable, non-transferable annual licences to be released in Sydney each year (excluding WATs) for which an annual licence fee is payable. Taxi licences can also be purchased directly on the secondary market or leased from an existing licensee.

The annual review of taxi licence release directly contributes to achieving the goals set out in the 'NSW 2021: A Plan to Make NSW Number One' 10 year plan, particularly those focused on improving the customer experience with transport services (goal 9) and restoring accountability to government by involving the community in decision making (goal 32).<sup>1</sup>

In 2010, PwC was commissioned to develop the Sydney Taxi Growth Model (STGM) to help Transport for NSW assess the need for taxi fleet growth in Sydney on an annual basis. The STGM was developed based on the factors set out in Section 32C(3) of the *Passenger Transport Act 1990* (the PTA). It has been used to inform both the 2010/11 and 2011/12 licence release determinations. Minor refinements were made to the model used to inform the 2011/12 release as a result of feedback from stakeholder consultation.

### **Taxi licensing reform in NSW**

The taxi licensing changes in Sydney had the objectives of:

- Ensuring that the supply of taxis responds closely to growth in passenger demand;
- Balancing the need for a more affordable means of entry into the taxi market with the need to avoid unreasonable impacts on existing licence holders;
- Reducing barriers to entry and encouraging competition;
- Placing downward pressure on fares over time; and
- Simplifying existing taxi licence structures.

In Sydney, the issue of ordinary transferable and short-term non-transferable licences has now been replaced by 12 month non-transferable licences that can be renewed annually nine times (that is a total of 10 years of operation) on payment of the annual licence fee, which can be paid by monthly installments.

The new model for taxi licence release in Sydney requires Transport for NSW to determine the number of annual taxi licences, excluding wheelchair accessible taxis (WAT) licences, to be released each year. In making this determination, Transport for NSW is to have regard to the following matters, as set out in section 32C(3) of the PTA:

- Likely passenger demand and latent demand for taxi services;
- Performance of existing taxi services;
- Demand for new taxi licences;
- Viability and sustainability of the taxi industry; and
- Any other matters that may be relevant.

Transport for NSW may also consider whether it is necessary to:

- Make a certain number of licences available to authorised taxi drivers only; and
- Limit the number of licences granted to the same applicant, or related entity, to promote competition.

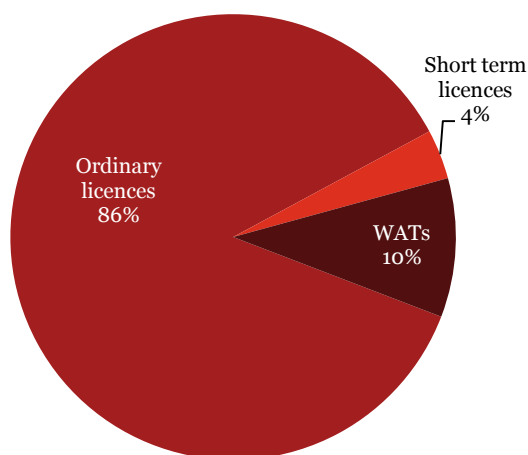
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<sup>1</sup> *NSW 2021 A plan to make NSW number one*, NSW Government, available at: [http://www.2021.nsw.gov.au/sites/default/files/NSW2021\\_WEB%20VERSION.pdf](http://www.2021.nsw.gov.au/sites/default/files/NSW2021_WEB%20VERSION.pdf)

Importantly, the PTA allows for the annual fee for each licence to be set by public auction or sealed tender and be renewable each year at that fee for up to 10 years.<sup>2</sup>

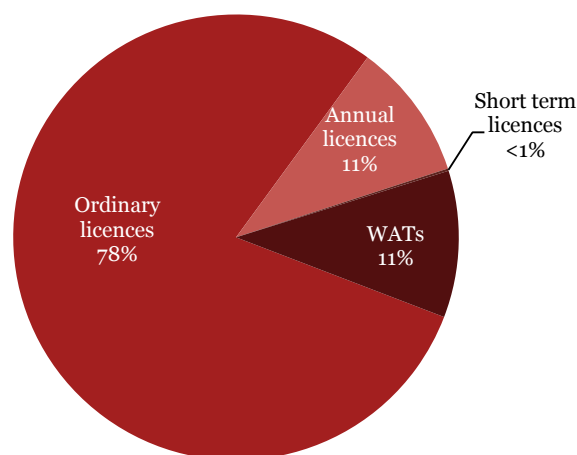
Annual licences now comprise more than 10 per cent of Sydney taxi licences. Figures 1 and 2 show the composition of Sydney taxi licences as at 31 December 2009 and 31 December 2011.

**Figure 1 Composition of Sydney taxi fleet as at 31st December 2009.**<sup>3</sup>



**Total number of licences = 5231**

**Figure 2 Composition of Sydney taxi fleet as at 31st December 2011.**<sup>4</sup>



**Total number of licences = 5777**

This Discussion Paper focuses on the key indicators of passenger demand for taxi services, performance of existing taxi services, and demand for new licences. It also canvasses some further matters relating to the licence release beyond the scale of taxi fleet growth, including the method of release for taxi licences and the method of determining annual licence fees.

## ***Role of the taxi growth model***

The Sydney Taxi Growth Model (STGM) developed by PwC in 2010 was used in 2010/11 and 2011/12 to inform the determination of the number of annual licences to be released.

As part of the licence release determination undertaken in 2011/12, the model factors and weightings were reconsidered. Drawing on feedback from stakeholder engagement, minor refinements were made to model components and their weightings, and updated data was incorporated for each model component. Changes to the 2010/11 approach were only made where there were compelling reasons supported by verifiable data, to maintain continuity for the ease of comparison of trends over time.

<sup>2</sup> Note: In accordance with the PTA S32JA: (1) The amount of the licence fee for an annual licence (other than a licence for a wheelchair accessible taxi-cab) must be determined by inviting applicants for the licence to bid for it at public auction or to submit sealed tenders for it. (2) TfNSW may, in the circumstances specified in the regulations, determine a licence fee for any such annual licence without complying with subsection (1).

<sup>3</sup> Chart constructed from data provided by TfNSW 2011: 'Number of licences by licence type in Sydney at 1 January 2010.'

<sup>4</sup> Total number of licences includes 643 annual licences. This figure is calculated by summing the number of annual licences released in the interim annual licence release (2010), and the number of licences determined for release in both the 2010/11 and 2011/12 annual licence determinations. Chart constructed from data provided by TfNSW 2011: 'Number of licences by licence type in Sydney at 1 December 2011' and data available on the TfNSW website at:

<http://www.transport.nsw.gov.au/content/taxi-licences>

The STGM has been developed based on a range of available data with relevance to likely passenger and industry demand for taxis and service performance. It considers the weightings according to their influence on the taxi industry. These components are described in detail in Table 1 below.

Measures of growth are applied to the components above, using industry and/or publicly available economic data. The 2010/11 STGM considered these components over the previous three years to establish a trend, and address latent demand over that time period. The 2011/12 Taxi Demand Model updated the 2010/11 model and reflected growth over the 12 months from January 2010 to December 2010. Similarly, the 2012/13 model will update the 2011/12 model and reflect growth over the 2011 calendar year. Where forecasts are available, some of the component measurements (SFD and Sydney population size) are based on projected as opposed to historical growth to make the STGM as representative of current taxi market conditions as possible.

Relative weights of each component in the model have been calculated based on stakeholder consultations and judgment of the relative importance of the key drivers of demand for taxis.

**Table 1 Components included in the Sydney Taxi Growth Model**

Relevant Factor	Component	Weighting (from 2011/12 determination)	Measurement
Likely passenger demand	State Final Demand (SFD)	20%	Fiscal Year
	Sydney population size	10%	Fiscal Year
	Unemployment rate	0%*	Fiscal Year
	Airport passenger numbers	10%	Calendar Year
	Network bookings (excludes rank and hail and direct with driver bookings)	10%	Calendar Year
<b>Total weighting for passenger demand</b>		<b>50%</b>	
Demand for new licences; viability	Value of licences (secondary market measure)	10%	Calendar Year
	Plate lease costs (secondary market measure)	10%	Calendar Year
<b>Total weighting for viability and demand for new licences</b>		<b>20%</b>	
Performance of existing taxi services	Average pickup time	10%	Calendar Year
	Percentage of pickups within 15 minutes	10%	Calendar Year
	Percentage of 'no cars available'	10%	Calendar Year
<b>Total weighting for performance of existing taxi services</b>		<b>30%</b>	

The final number of taxi licences released are adjusted by the number of plates released throughout the previous year, changes in total fleet size and composition that may occur through attrition and the number of current licences set to expire in the following year.

Considering this model, Transport for NSW determined that:

- In 2010/11: 167 fleet growth unrestricted licences (of which 90 were for eligible taxi drivers only) were released in Sydney for the year commencing 1 July 2010, representing taxi fleet growth of 3.2%. 149 replacement licences to cover those existing short term licences due to expire were also issued.
- In 2011/12: 197 fleet growth licences,<sup>5</sup> were released in Sydney for the year commencing 1 July 2011, representing a taxi fleet growth of 3.6%. Thirty replacement licences to cover those existing short term licences due to expire were also issued.

\* The unemployment rate is a macroeconomic measure of labour market activity, which is linked to the level of economic activity. This component was included in the 2010/11 STGM but was removed in the 2011/12 version of the model due to the sometimes counter cyclical relationship, and weak correlation it appeared to have with demand for taxi licences. We do not plan to draw on it as a component in the 2012/13 model.

<sup>5</sup> Of the fleet growth licences, it was determined that 69 unrestricted and 69 peak availability licences would be made available to eligible taxi drivers only.



## 3. Key issue 1: Model components and weightings

Section 32C(3) of the *Passenger Transport Act 1990* (the PTA) sets out the matters that Transport for NSW must consider in making the annual determination of the number of annual licences (excluding WATs) to be issued in Sydney. The PTA requires that regard be given to the following matters in making a determination:

1. Likely passenger demand and latent demand for taxi services;
2. Performance of existing taxi-cab services;
3. Demand for new taxi-cab licences;
4. Viability and financial sustainability of the taxi-cab industry; and
5. Any other matters Transport for NSW considers relevant, having regard to the objective of ensuring improved taxi services

The Sydney Taxi Growth Model (STGM) was developed to incorporate these factors, in order to provide a transparent measure of passenger demand and taxi fleet growth over time. Continuity of components and weightings will enable comparison of trends over time.

The components and their relative weights were developed taking into account stakeholder consultations undertaken in March 2010 and judgement of the relative importance of each component in influencing the key drivers of demand for taxis (as considered in the determination of licence release). Component weightings were reviewed and some adjustment made in 2011/12, following evidence-based feedback received from stakeholder consultation. The three key drivers of taxi demand in the model are:

- Measures of likely passenger demand and latent demand for taxi services;
- Industry viability and sustainability indicators (licence transfer and lease values or operator demand for new licences to enter the industry); and
- Changes in network booking key service performance indicators (KPIs).

As part of the 2012/13 determination, Transport for NSW is seeking stakeholder evidence-based comment on whether any significant changes to the STGM are warranted, and/or whether there are any alternative data sources that may be used as components in the model to provide a more robust measure for any of the key drivers of taxi demand.

Table 1 (above) indicates the specific weightings of each component and the form of measurement used in the current STGM.

During the 2011/12 determination process, potential issues with each of the model components were discussed. Stakeholder feedback was included in PwC's final report: *Review of 2011/12 annual taxi licence release for Sydney*, 18 March 2011 (revised 29 April 2011).<sup>6</sup>

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<sup>6</sup> Report available at: <http://www.transport.nsw.gov.au/content/taxi-licences>

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## ***Issues that may warrant comment in the 2012/13 determination***

### **Alternative data to measure likely passenger demand**

The use of and availability of a better source of data than ‘total network bookings’ to measure likely passenger demand is required. Network bookings are estimated to be between only 20% and 40% of all taxi hirings, dependent upon the area of trip origin or network. The majority of trips are rank, hail, and bookings made direct with drivers, for which Transport for NSW does not have complete data readily available on an ‘industry-wide’ basis. Given the small proportion of total trips that are booked through the network, the year on year change in network bookings does not necessarily provide an accurate estimate of the change in overall passenger demand.

Based on data available at time of publication, the indicative trend in the number of network bookings from Calendar Year (CY) 2010 to CY 2011 shows a decline.<sup>7</sup> The driver of this is unclear, and may not be representative of an overall decline in passenger demand for taxi services. The fall in network bookings may be due to any one of a number of factors, including an increase in bookings made direct with drivers, or changing consumer preferences to hire a taxi by hail or rank instead of booking over the telephone or online.

Transport for NSW will be undertaking taxi customer surveys later in the year to help gain a better understanding of how customers use taxi services, including the means employed to obtain a taxi (i.e. through network booking, rank and hail hirings, direct with driver bookings, etc.). While survey results may be used for future annual releases, surveys will not be completed in time to inform the 2012/13 annual taxi licence release.

Transport for NSW is seeking stakeholder comment on possible data sources that could be used to improve estimates of the change in passenger demand for taxi services. The possibility to use taxi ‘meter swing’ data (records of each time a taxi’s meter is switched on and off) warrants consideration, and any potential issues with this (such as technical capability) need to be explored. Suggestions of how particular stakeholder groups may be able to provide or collect relevant data for measuring passenger demand are sought.

### **Sydney Airport taxi trips**

The possible inclusion in the STGM of data indicating the annual change in the number of taxis passing through Sydney Airport requires consideration. This data could be included in the model either as an alternative to, or as well as the data on annual passenger movements through the airport.

Available data indicates that there is a difference in the level of growth in Sydney Airport passenger numbers and the number of taxis passing through the airport. Annual percentage changes for both measures are shown in Table 2 below. It must be noted that annual Sydney Airport passenger growth is calculated between fiscal years, while the growth in taxis passing through the airport is reported as the annual percentage change between two calendar years.<sup>8</sup>

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<sup>7</sup> Based on monthly Key Performance Indicator (KPI) data, reported by taxi networks to TfNSW. (Available to October 2011 at time of publication).

<sup>8</sup> Sydney Airport has recently begun publishing passenger movement statistics on a monthly basis, which allows for the possibility of calculating the annual growth in Sydney Airport passenger numbers between calendar years. (Monthly data to November 2011 was available at the time of publication.) However, to maintain consistency with past annual releases, TfNSW plans to continue calculating annual Sydney Airport passenger growth on a fiscal year basis for the 2012/13 release.

**Table 2 Comparison of annual growth rates in Sydney Airport passenger numbers to growth in taxis passing through Sydney Airport**

Year of annual growth	Growth in Sydney Airport passenger numbers (annual growth between fiscal years) <sup>9</sup>	Growth in taxis passing through Sydney Airport (annual growth between calendar years) <sup>10</sup>
2009 to 2010	6.5%	3.6%
2010 to 2011	4.3%	0.31%

Comment (supported by evidence where available) is sought from stakeholders on the extent to which this difference may reflect reduced demand for taxi services, or be a signal of other factors external to the availability of taxis such as travel times, comfort and price.

### Trends of past licence release processes as a measure of industry viability and sustainability

As there has now been an interim release of 100 licences and two annual determinations since the commencement of the annual licence release process, there is potential that some of the outcomes of these releases (in particular bid prices and/or ratio of bids to licences) could be captured in the STGM as an additional measure of demand for new licences.

Currently, the STGM uses the value of licences sold on the open market and plate lease costs as proxies for new licence demand. The lack of multiple time period data has previously prevented the use of bid values in the annual licence determinations as an input to the STGM.

This data is now available; although it is still currently over a relatively short period with a relatively small number of comparable values (annual licences only represent 10% of all taxi licences in Sydney). This data could be incorporated into the model for future releases by using either the mean or median of all bids over a year, to represent the average market value of a licence in that year.<sup>11</sup> An alternative option could be to compare the number of bids placed (successful and unsuccessful) relative to the number of licences available. If there were more bids than licences available, this could indicate demand for more licences in the market.

Table 7 in Chapter 4 displays the average and median annual licence fees and the ratio of number of bids to number of licences released, for each licence category and release. Also displayed are trends in the movement of licence prices between releases. As stakeholders become more familiar with the licence release process, it is expected that licence fees and bid prices will stabilise over time. Therefore, caution is required in considering trends at this early stage in the annual release process.

Transport for NSW seeks stakeholder comment on the potential to include data from the outcomes of past annual releases in the STGM, as an additional measure of demand for new licences.

### Availability of plate lease cost data

The current availability of reliable plate lease cost data is problematic. In past annual licence release determinations, the STGM has used the inflator published in the Independent and Regulatory Tribunal's (IPART's) annual taxi fare review as a measure of the annual change in plate lease costs.<sup>12</sup> The calculation of

<sup>9</sup> Source: BITRE, Airport Traffic Data 1985-86 to 2010-11, available at: <http://www.bitre.gov.au/info.aspx?ResourceId=191&NodeId=96>

<sup>10</sup> Data supplied by Sydney Airport Corporation Limited (SACL) to TfNSW on a commercial in confidence basis. Growth rates only provided to PwC 18/01/12.

<sup>11</sup> Making adjustments for inflation where required.

<sup>12</sup> For example, refer to data table 5. Licence Plate Leases in *Review of Fares for Taxis from July 2010*, IPART, completed 19 March 2010, available at: <http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi>

this inflator is based on confidential data provided by the NSW Tax Council to IPART, sourced from a sample of taxi networks.

IPART has not published an inflator for licence lease costs in its 2012 Review of Taxi Fares in NSW Issues Paper, as it is seeking comment on the lease cost item as a component in calculating Taxi Cost Indices.<sup>13</sup> IPART has previously raised concerns about the inflator, in that it is not publically available and verifiable. However, an alternative inflator that is a good proxy for changes in annual lease costs has not been identified.

Where the IPART inflator has not been available in the past, lease fee data voluntarily reported to TfNSW by the taxi industry has been used to calculate average lease fees over a calendar year, and annual growth computed between calendar years. However, for the 2011 calendar year, TfNSW has only received two voluntary reports of plate lease costs. Given that more than 75% of licences are leased in Sydney, two data points is not a sufficient sample to use in the calculation of average lease fees.

To improve the reliability and transparency of this component, TfNSW is proposing to amend cl 184 of the Passenger Transport Regulation 2007 so that TfNSW must be notified of licence lease values as part of the mandatory licence lease notification. TfNSW is currently undertaking stakeholder consultation on this issue. However, the regulation will not be amended prior to the 2012/13 annual licence release determination. Moreover, even subsequent to its amendment, sufficient time-series data is unlikely to be available in the first year.

Due to the current gap in plate lease cost data, TfNSW seeks stakeholder comment on alternative means of calculating the annual change in plate lease costs for 2012/13.

## ***Indicative trends for the 2012/13 model output***

Submissions to the 2011/12 annual licence release process indicated a desire for indicative results of the model to assist in informing submissions. Based on the model and approach applied for the 2011/12 advice,

Table 3 presents the indicative trends that may apply to each of the components for the 2012/13 model based on data available to date. This has been included for indicative purposes to assist in the consultation process, as complete annual data sets are not yet available for all of the components at the time of finalising this Discussion Paper. Also displayed in Table 3 is a description of each model component and the data to be applied in its calculation.

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<sup>13</sup> Movement in the Taxi Cost Indices (TCIs) provides a measurement of how much the cost of providing taxi services has changed over the previous 12 months. Refer to *2012 Review of Taxi Fares in NSW*, IPART December 2011, p.p.1, 29-30, available at: [http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review\\_of\\_fares\\_for\\_Taxis\\_from\\_July\\_2012/Dec\\_2011\\_-\\_Release\\_Issues\\_Paper/Issues\\_Paper\\_-\\_2012\\_Review\\_of\\_Taxi\\_Fares\\_in\\_NSW\\_-\\_Maximum\\_fares\\_from\\_July\\_2012\\_-\\_December\\_2011](http://www.ipart.nsw.gov.au/Home/Industries/Transport/Reviews/Taxi/Review_of_fares_for_Taxis_from_July_2012/Dec_2011_-_Release_Issues_Paper/Issues_Paper_-_2012_Review_of_Taxi_Fares_in_NSW_-_Maximum_fares_from_July_2012_-_December_2011)

**Table 3 Components in the Sydney Taxi Growth Model and indicative 2012/13 trend** (Note: based on components / weightings from 2011/12 determination)

Relevant factors	Component	Weight	Indicative trend in growth for 2012/13 model <sup>14</sup>	Description of component	Description of data to be applied
<b>Likely passenger demand (Total weighting 50%)</b>	State final demand (SFD)	20%	Predicted growth of 0.65% (down 0.05% on 2010/11)	A measure of NSW's economic activity from an expenditure view of the economy. It covers expenditure by individuals, businesses and government in NSW. <sup>15</sup>	Forecast growth between Financial Year (FY) 2011/12 and FY 2012/13 in SFD; based on NSW Treasury annual forecasts for year ending June 30. Source: <i>Half Yearly Review 2011-12</i> , Department of Treasury, NSW Government, released 15 December 2011.
	Sydney population size	10%	Predicted growth of 1.5% (up 0.3% on 2010/11)	Current population of the Greater Sydney area.	Forecast growth between FY 2011/12 and FY 2012/13 in Sydney population size; based on ABS average annual growth rate between 2005 and 2010. Source: ABS, <i>3101.0 – Australian Demographic Statistics</i> June 2011, available at: <a href="http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Jun%202011?OpenDocument">http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Jun%202011?OpenDocument</a>
	Sydney (Kingsford-Smith) Airport passenger numbers	10%	Data indicates growth of 4.3% (down 2.2% on 2010/11) <sup>16</sup>	Passenger traffic at Sydney Airport is a significant source of fare revenue for taxis. Volumes through the airport are also correlated to tourism activity levels with tourists being more active taxi users.	Historical growth between FY 2009/10 and FY 2010/11 in airport passenger numbers; based on Sydney Airport Passenger Statistics. Source: BITRE, <i>Airport Traffic Data 1985-86 to 2010-11</i> , available at: <a href="http://www.bitre.gov.au/info.aspx?ResourceId=191&amp;NodeId=96">http://www.bitre.gov.au/info.aspx?ResourceId=191&amp;NodeId=96</a>
	Network bookings (excludes rank and hail and direct with driver bookings)*	10%	Trend indicates a decrease in network bookings during 2011	Network bookings can represent on average between 20-40% of the total Sydney market depending on the area of trip origin. The greatest proportion of trips are by hail and rank and direct with driver booking. In the absence of an evidence based measure of total passenger demand, network booking data is currently the only reliable proxy for taxi demand.	Historical growth between CY 2010 and CY 2011 in the number of network bookings; based on TfNSW KPI data. (Monthly disaggregated data provided by taxi networks.) Source: <i>Taxi KPIs July 2008 to October 2011</i> , TfNSW, provided to PwC 21/12/11.

<sup>14</sup> Based on currently available data (incomplete data where indicated \*)<sup>15</sup> This aspect is considered more relevant than an alternative measure, Gross State Product (GSP) as GSP is a broader measure of economic activity than SFD and includes production activities that may not necessarily influence the demand for taxi services (for example coal exports).<sup>16</sup> Note: This growth is the BITRE reported annual growth rate between 2009-10 and 2010-11, as passenger numbers from Sydney Airport for December 2011 were not available at time of release of this Discussion Paper. Data will be updated when published. BITRE data available at: <http://www.bitre.gov.au/info.aspx?ResourceId=191&NodeId=96>\* Note: incomplete data as at 27<sup>th</sup> January 2012.

Relevant factors	Component	Weight	Indicative trend in growth for 2012/13 model <sup>14</sup>	Description of component	Description of data to be applied
<b>Demand for new licences and viability (Total weighting 20%)</b>	Value of licences (secondary market measure)*	10%	Trend indicates relatively steady increase in value of licences	Changes in transfer value (open market sale price) of transferable unrestricted licences. Represents industry viability and demand to enter the industry. An increase in licence values suggests capacity for additional taxis in the industry, and indicates demand for new licences.	Historical growth between CY 2010 and CY 2011 in average transfer value; based on TfNSW supplied data for unrestricted licence transfer values. Source: Average monthly transfer values – unrestricted licences in Sydney, January 2000 to November 2011, TfNSW, provided to PwC 21/12/11.
	Plate lease costs (secondary market measure)	10%	Insufficient data available at this time	Plate lease costs represent an important cost to taxi operators who lease their plates (it comprises 14% of the taxi cost index, <sup>17</sup> which impacts the pay-in levels for drivers). An increase in lease costs indicates capacity for additional taxis in the industry.	Historical growth between CY 2010 and CY 2011 in average monthly plate lease costs for Sydney Metropolitan Ordinary taxi licences; based on lease fee data reported by the taxi industry. <i>Note: The STGM has in the past used the inflator published in the IPART annual taxi fare review (based on confidential data provided by the NSW Taxi Council) for this component. Where the IPART inflator has not been available, licence lease cost data voluntarily reported to TfNSW has been used. Due to the current unavailability of both data sources, TfNSW is seeking comment on alternative means of calculation for this component.</i>
<b>Performance of existing taxi services (Total weighting 30%)</b>	Average pick up time (minutes)*	10%	Trend indicates slight decrease in average pick up time in 2011	The time from when the booking is accepted by the network booking service to the time the driver turns the meter on. <sup>18</sup>	Historical growth between CY 2010 and CY 2011 in average pickup time; based on TfNSW monthly KPI data. Source: Taxi KPIs July 2008 to October 2011, TfNSW, provided to PwC 21/12/11.
	Percentage of pickups within 15 minutes*	10%	Trend indicates an improvement in this KPI in 2011	The number of recorded pickups within 15 minutes (KPI 6.1) divided by the total number of recorded taxi pickups (KPI 6.4) in a calendar year. <sup>19</sup>	Historical growth between CY 2010 and CY 2011 in the percentage of pickups within 15 minutes; based on TfNSW monthly KPI data. Source: Taxi KPIs July 2008 to October 2011, TfNSW, provided to PwC 21/12/11.
	Percentage of 'no cars available'*	10%	Trend indicates a slight improvement in this KPI in 2011	A reliability measure calculated as the number of times a network is unable to fulfill a booking (KPI 12) divided by the number of booking requests to a network (KPI 1) in a calendar year.	Historical growth between CY 2010 and CY 2011 in the percentage of 'no cars available'; based on TfNSW monthly KPI data. Source: Taxi KPIs July 2008 to October 2011, TfNSW, provided to PwC 22/12/11.

<sup>17</sup> 2012 Review of Taxi Fares in NSW, IPART, December 2011.

\* Note: incomplete data as at 27<sup>th</sup> January 2012.

<sup>18</sup> Taxi Performance Data Definitions, Transport NSW

<sup>19</sup> Taxi Performance Data Definitions, Transport NSW

Relevant factors	Component	Weight	Indicative trend in growth for 2012/13 model <sup>14</sup>	Description of component	Description of data to be applied
Adjustments to the model	(1) Number of wheelchair accessible taxi (WAT) licences released	Not applicable	-18	Assuming that WATs perform a certain proportion of jobs requiring accessibility by a wheelchair (55%), 45% of the WAT licences released can be counted as standard or equivalent taxi licences. <sup>20</sup> This number is subtracted from the STGM's calculation of the number of new annual growth licences to be released (as the WAT licences are already catering for part of the demand predicted by the model).	Data provided by TfNSW for number of WAT licences on issue; as at 31 December 2011. Note: In the period between 31 December 2010 and 31 December 2011, the net change in Wheelchair Accessible Taxi (WAT) licences was 39. This is equivalent to approximately 18 standard or conventional taxi licences. Source: <i>Taxi Stats</i> – as at 1 <sup>st</sup> working day in January, TfNSW, provided to PwC 11/01/12.
	(2) Attrition of licences*	Not applicable	28	The STGM's calculations are based on the number of annual licences released (assumed to be the number of annual licences in operation). Hence the attrition of licences is not accounted for by the STGM and an adjustment is required in the form of 'adding back' these licences.	Data provided by TfNSW for FY 2011 up to and including the 31 December 2011. In 2011, 28 annual licences were surrendered to TfNSW by taxi operators (data available to 6/12/2011 to date). Note: for additional information regarding the attrition of licences, refer to chapter 4: Key Issue 2. Source: <i>Taxi tender plates surrendered as at 6/12/2011</i> , TfNSW. Provided to PwC 24/01/2011.
	(3) Staged release of demand backlog	Not applicable	0	In the 2010/11 determination, analysis beyond the STGM indicated that 42 additional licences were needed to address the backlog in demand over the previous four years (2006 to 2010). In order to stage the release of licences, half (21) of these licences were released in 2010/11, with the remaining 21 licences to be released in 2011/12. This will not be an element included in the 2012/13 STGM.	Source: Analysis on release of new annual taxi licences from 1 July 2010, PwC, report to New South Wales Transport and Infrastructure (now Transport for NSW), March 2010.

<sup>20</sup> Assumption based on ability of WATs to undertake both standard and wheelchair accessible jobs.

In summary, the indicative trends indicate that while measures for latent demand (SFD, population, airport passenger numbers) appear to be growing, the key measure for passenger demand (network bookings) is trending to a decline; and performance of existing taxi services is improving.

Caution is required in assuming the final outcomes of the model until the complete data sets have been included. However, it can be reasonably assumed that fleet growth will be considerably lower than that in 2011/12.

In addition to fleet growth, Table 4 presents the number of existing short term licences due to expire in 2012/13 (short term licences can no longer be issued in Sydney, therefore a new annual licence is to be issued to ensure no reduction in service).

**Table 4 Replacement licences to be released in 2012/13**

<b>Driver of taxi demand</b>	<b>Component</b>	<b>Contribution to total licence release</b>
Replacement of short term licences due to expire in 2012/13	Peak availability licences	0
	Unrestricted licences	0
	Fringe area licences	2
Number of replacement annual taxi licences for 2012/13		2



## ***Stakeholder feedback***

### **Key Issue 1:**

Trends indicate a drop in network bookings. Comment is sought on possible reasons for this. Does this reflect reduced demand for taxi services or other factors, such as growth in other forms of taxi hirings or shift to other transport modes?

Is there any alternative data (as opposed to network bookings) that could be used to measure passenger demand for taxi services, such as meter swing data? We would appreciate if any relevant data could be provided.

The growth rate in taxi passages through Sydney Airport is lower than growth in Sydney Airport passenger numbers. Comment is sought on possible reasons for this. Does this reflect reduced demand or other factors?

Should data from the outcomes of past annual licence releases (such as mean/median licence bid prices or ratios of number of bids to licences issued) be included in the STGM?

What method could be used to calculate the annual change in plate lease costs?

Is the assumption that WATs perform jobs requiring accessibility by a wheelchair in 55% of cases accurate?

Are there any other significant issues with the components and/or weightings in the Sydney Taxi Growth Model?

Please include reasoning and supporting data where available.

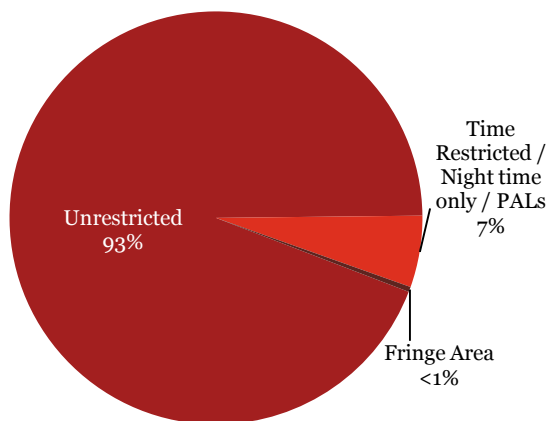
## 4. Key issue 2: Need for different classes of licences

Transport for NSW must determine the number of taxi licences to be released annually, and also the number and class of licences that are reserved for drivers only. This does not preclude TfNSW from considering the licence class of all growth licences as part of the annual licence release.

### Number and class of Sydney taxi licences

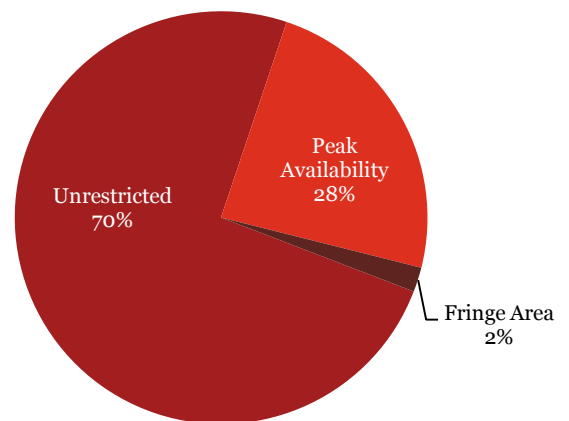
A comparison of the class distribution of **all taxi licences in Sydney** (ordinary, short term, and annual excluding WATs) with the class distribution of **annual taxi licences in Sydney only** (as at 31 December 2011) is presented in figures 3 and 4.<sup>21</sup>

**Figure 3 Class distribution of all Sydney taxi licences (ordinary, short term & annual, excl. WATS) as at 31st December 2011.<sup>23</sup>**



**Total number of licences = 5169**  
(4526 ordinary and short term + 643 annual)

**Figure 4 Class distribution of annual Sydney taxi licences only (excl. WATS) as at 31st December 2011.<sup>22</sup>**



**Total number of annual licences = 643**

The figures show that while unrestricted licences continue to make up the vast majority (93%) of total Sydney taxi licences, the proportion of PAL licences is increasing through the annual licence release process. Table 5 summarizes the annual licences released by Transport for NSW to date, by licence class and category of eligible bidder.<sup>24</sup>

<sup>21</sup> Total number of licences includes 643 annual licences. This figure is calculated by summing the number of annual licences released in the interim annual licence release (2010), and the number of licences determined for release in both the 2010/11 and 2011/12 annual licence determinations.

<sup>22</sup> Chart constructed from data provided by TfNSW 2011 and data available on the TfNSW website: 2010/11 annual taxi licence determination; 2011/12 annual taxi licence determination, 'Annual taxi licence release results', available at: <http://www.transport.nsw.gov.au/content/taxi-licences>

<sup>23</sup> Chart constructed from data provided by TfNSW 2011: 'Number of licences by licence type in Sydney at 1 December 2011' and data available on the TfNSW website: 2010/11 annual taxi licence determination; 2011/12 annual taxi licence determination & 'Annual taxi licence release results', available at: <http://www.transport.nsw.gov.au/content/taxi-licences>

<sup>24</sup> Note: At the time of this Discussion Paper's release, a tender is underway for 46 PALs (available to eligible taxi drivers only), which were under-subscribed in the 2011/12 licence release.

**Table 5 Number of annual licences released by class (including growth and replacement licences) as at 31 December 2011.**

Licence class	Release	Number of annual licences released	Percentage of all Sydney annual licences (exc. WATs)
Unrestricted <sup>25</sup> (available to all applicants)	2010 Interim Release	100	48%
	2010/11 stage 1	96	
	2010/11 stage 2	33	
	2011/12	60	
Unrestricted (available to eligible taxi drivers only)	2010/11	90	27%
	2011/12	69	
Peak Availability Licence <sup>26</sup> (available to all bidders)	2010/11 stage 1	61	19%
	2010/11 stage 2	29	
	2011/12	25	
Peak Availability Licence (available to eligible taxi drivers only)	2011/12	23*	4%
Fringe Area Licence <sup>27</sup>	2010/11 stage 1	3	2%
	2010/11 stage 2	4	
	2011/12	4	
<b>Total</b>		<b>597</b>	<b>100%</b>

Source: Transport for NSW website: <http://www.transport.nsw.gov.au/content/taxi-licences>

### Attrition of licences

Given that there is no requirement for annual licences to be renewed, it is reasonable to expect that some proportion of annual licences will be returned over time. This may occur for a variety of reasons, such as successful acquisition of a cheaper licence, or a driver's decision to no longer operate a licence. From the period 1st July 2011 to 6<sup>th</sup> December 2011, 28 annual plates were handed back to Transport for NSW. The 28 returned plates in the second half of 2011 were comprised of the licence classes set out in Table 6 below.

**Table 6 Plates returned to Transport for NSW (FY12 to 6 Dec 2011)**

Period of release	Licence type	Available to:	No. of licences handed back	% of licences released
2010/11 release: Stage 1 (Aug-Sep 2010)	Unrestricted	Driver only	6	7%
		All bidders	18	19%
	Peak Availability	All bidders	3	5%
2010/11 release: Stage 2 (Nov 2010)	Unrestricted	All bidders	1	3%
<b>Total</b>			<b>28</b>	<b>9% (of all plates released 2010/11)</b>

<sup>25</sup> Annual unrestricted licences can operate anywhere in Sydney, at any time of day. These can be issued to eligible taxi drivers only or be available to all applicants.

<sup>26</sup> Annual Peak Availability Licences (PALs) seek to provide a taxi service in periods of high demand and can only operate between 12 noon and 5 am every day. These can be issued to eligible taxi drivers only or be available to all applicants.

\*Note: 69 PALs were released to eligible taxi drivers only in 2011/12, but only 23 were issued. The remaining 46 undersubscribed licences are currently out to tender. Tender applications close Friday 3<sup>rd</sup> February 2012.

<sup>27</sup> The objective of Annual Fringe Area Licences (FALs) is to provide areas on the metropolitan fringe with an equal level of taxi service to metropolitan areas. FALs in past annual releases have been issued separately or in a package to a single applicant and have only been issued as replacement licences to date.

Due to the small number of annual licence releases and limited time series data available to date, it is too early to determine a trend in annual licence attrition. Although the reasons for return of plates was not requested by TfNSW, analysis performed illustrated that 22 out of 28 (nearly 80%) of the plates handed back had been issued at bid prices above the average annual licence fee for their categories. As stakeholders become more familiar with the annual licence release process over time, attrition rates are likely to stabilize and reach an equilibrium level.

### **Successful bid price trends: 2009/10 to 2011/12**

Successful bid prices have tended to fluctuate over the releases. The change in average prices between like-licence categories is presented in Table 7. For licence categories that are able to be compared, bid prices decreased between the 2010/11 stage 2 release and the 2011/12 release by an average of 3 per cent.

From the successful bid prices, it can be seen that peak availability plates have been valued at about 75% of the price of unrestricted plates. The hours of operation for those holding PALs is restricted to peak hours only (between 12 noon and 5am). This is when the highest level of demand is expected to occur.

### **Trends in the ratio of bids to the number of licences released: 2009/10 to 2011/12**

The ratio of bids to the number of licences released has decreased across each of the plate categories. The driver only peak availability category was the only under-subscribed category.

**Table 7 Ratio of conforming bids to annual licences released (2009/10 to 2010/11)**

Licence class	Release	Total licences to be released		Ratio of conforming/eligible bids to no. released		Average Licence Fee	Trend between releases	Median Licence Fee
		To all bidders	To drivers	All bidders	Drivers			
Unrestricted (all applicants)	Interim Release	100	62	7.4	11.9	\$31,864		\$31,616
	2010/11 stage 1	96	63	8.5	5.7	\$34,968	+10%	\$34,554
	2010/11 stage 2	33	28	9.8	8.8	\$35,791	+2%	\$35,500
	2011/12	60	37	3.7	2.6	\$34,652	-3%	\$34,865
Unrestricted (driver only)	2010/11	90	90	3.8	3.8	\$33,636		\$33,393
	2011/12	69	69	1.8	1.8	\$32,521	-3%	\$32,526
PALs (all bidders)	2010/11 stage 1	61	41	10.4	8.1	\$25,994		\$25,800
	2010/11 stage 2	29	20	7.3	6.0	\$27,706	+7%	\$27,380
	2011/12	25	14	3.0	2.4	\$26,786	-3%	\$26,780
PALs (driver only)	2011/12	69	69	0.6	0.6	\$24,248		\$23,752
FALs	2010/11 stage 1	3 (packaged)	0	2.0	0	\$2,002		\$2,002
	2010/11 stage 2	4	0	4.5	10/0	\$20,020		\$20,020
	2011/12	4	0	3.25	6/0	\$28,241		\$28,654

Source: Transport for NSW website: <http://www.transport.nsw.gov.au/taxi-licences> (accessed 12/01/2012). Data also provided by Transport for NSW: Taxi Licence Release analysis (various dates).

As stakeholders become more familiar with the licence release process, there is the potential that licence fees and bid prices will stabilise, and over time median licence fees and secondary market licence values may align.

On the basis of economic fundamentals, PwC has previously recommended that all growth licences – including taxi driver only licences – be issued as unrestricted, to allow operators / drivers the opportunity to determine the most viable time to operate. The under-subscription of the 2011/12 release of driver-only PALs may be evidence that supports this recommendation.

However, PwC acknowledges other arguments supporting the release of PALs, in particular that they may help to address the shortage of taxis at changeover periods and may be suited to drivers operating a single shift only. An alternative approach could be to establish targets for licence class composition. Currently, PALs comprise 2.5% of the total number of taxi licences in Sydney (excluding WATs), and 24% of annual taxi licences (figure 4).

## Key Issue 2

What is the optimal mix of taxi licence types? Is there a need for different classes of licence?

Should all taxi licences be issued as unrestricted (for the market to decide hours of operation) or should there be targets for the share of unrestricted licences / PALs / FALs?

Are there any other classes of licence that may warrant consideration that would improve service delivery?

Objective evidence should be provided to support comments.

## 5. Key issue 3: Offering licences to authorised taxi drivers only

### Objectives of ‘taxi driver only’ licences

Transport for NSW must determine the number and class of licences available to eligible authorised taxi drivers only.

In the 2011/12 annual release of licences, criteria to be eligible for a ‘driver only’ licence includes:<sup>28</sup>

- The applicant has held a current NSW taxi-cab driver authority for a minimum period of four years; and
- The current taxi-cab driver authority has, in that period, remained continuously in force;
- The applicant has actively worked as a taxi driver for a minimum of 12 months in the last four years;
- The applicant is required to provide evidence, within seven calendar days from the date of the notice, of having actively worked as a taxi driver in NSW for a minimum of 48 shifts over 12 consecutive months in the last four years; and
- The applicant holds a current driver’s licence issued by the Roads and Traffic Authority of the kind required under clause 29(2)(b) of the PTA and that driver’s licence has remained continuously in force for a minimum period of four years.

The allocation of ‘taxi driver only’ licences and the eligibility criteria allows for eligible taxi drivers to obtain licences, reflecting the objectives of the licensing reform: to provide a career path for drivers and encourage attraction and retention of experienced and quality drivers in the industry.<sup>29</sup>

### Number of taxi driver only licences

Table 9 shows the number of driver only licences released as part of the annual release process to date (note that eligible drivers were able to apply for one licence in the driver only categories but all drivers were also able to apply for licences in the open categories for which there was no limit). The last column in the table indicates that in the 2011/12 annual release, 35 (21%) of tenders received by TfNSW were from non-eligible applicants. While these tenders conformed with the application process, the applicants did not meet the specified eligibility criteria.

**Table 8 Taxi driver only annual licences**

Period of release	Licence class	No of licences released:	% of total driver only licences	Total bids	Non-eligible bids (% of total bids)
2010/11 release	Unrestricted	90	39%		
2011/12 release	Unrestricted	69	30%	126	27 (21%)
	Peak Availability	69*	30%	42	8 (19%)
<b>Total</b>		<b>228</b>	<b>100%</b>		

<sup>28</sup> TfNSW, *Eligibility Criteria: Applicants for taxi-cab licences in the taxi-cab drivers only category*, available at: <http://www.transport.nsw.gov.au/sites/default/files/b2b/taxireform/tender-tfnsw-2012-002.pdf>

<sup>29</sup> 2010/11 Stage 1 Taxi Annual Licence Tender, ‘Taxi Driver only’ tender, Transport NSW, available at <http://www.transport.nsw.gov.au/sites/default/file/taxi/TNSW-2010-010-Tender-package-Taxi-Driver-Only.pdf>

\* A total of 69 licences were released for tender in this class at this time. However, the release was undersubscribed and only 23 licences were issued.

In the 2010/11 Stage 1 tender there was strong demand for licences in the taxi driver only category with 3.8 complying applications for each of the 90 licences on offer. There was also strong demand from taxi drivers for licences in the open unrestricted licence and PAL categories.

Considering bids for all licences in the 2010/11 stage one release only, taxi drivers (including the categories drivers and drivers/operators) comprised 58% of all applications (47% of all applications for the licences open for anyone to apply), and were successful in obtaining 78% of all licences issued (66% of all licences open for anyone to apply).<sup>30</sup>

In the 2011/12 tender the demand for licences in the taxi driver only categories was not as strong as the previous year, with 1.8 successful bids for each of the 69 unrestricted licences on offer, and only 0.4 successful bids for each of the 69 PALs on offer. This resulted in the peak availability driver only category being under-subscribed, with the 46 unallocated licences currently re-released for tender (applications due February 3rd, 2012).

Considering bids for all licences in 2011/12 taxi drivers comprised 64% of all applications (44% of all applications for the licences open for anyone to apply) and were successful in obtaining 80% of all licences issued (62% of all licences open for anyone to apply). The ratio of conforming bids by drivers to the number of licences issued to drivers in each category, provides an indication of the categories that drivers were most interested in (refer Table 7). For the 2011/12 release, this ratio was the highest in the unrestricted (available to all bidders) category (2.6) followed closely by the PAL (available to all bidders) category (2.4).

While it appears that taxi-driver demand overall remained strong in the 2011/12 release, it must be noted that in this release, 61% of all licences tendered were available to taxi drivers only, a large increase on the 36% available to taxi drivers only in the 2010/11 stage one release. Nevertheless, 62% of licences in the open categories were also issued to drivers.

## ***Class of taxi driver only licences***

As described above, in the Stage 1 2010/11 release, all taxi driver only licences were offered as unrestricted class licences, while in the 2011/12 release they were offered in both the unrestricted and PAL classes taking into consideration submissions made.

The release of unrestricted annual licences to drivers allows drivers the opportunity to determine the most viable times of day to operate. However, arguments supporting the release of driver only licences as PALs include:

- As PALs are often anecdotally single-shifted, they may be well-suited to owner/drivers
- PAL fleet growth (rather than unrestricted) reduces impact on industry viability during the off-peak period
- PAL fleet growth may improve the availability of taxis during the traditional 3pm/3am changeover as PALs do not typically changeover during these periods.

Although the number of successful bids per licence decreased across all licence types from 2010/11 to 2011/12, the under-subscription of the 2011/12 stage one release of 69 PALs for taxi drivers only, indicate that there may not be sufficient demand among taxi drivers to support the further release of driver only PALs.

Future availability of data on network booking performance at peak times and off-peak times and geographic location would assist in future advice on demand for PALs or other types of area of operation restricted licences.

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<sup>30</sup> Note: Not all taxi drivers applying for licences in the open categories were eligible to apply for a licence in the taxi driver only category.

## ***Stakeholder feedback***

### **Key Issue 3**

Why was the proportion of non-eligible driver-only applications so high? Was eligibility criteria not clear, or should eligibility criteria be changed?

Is there demand to release more taxi driver only licences (note drivers can apply for licences in the open categories)?

What might be the right mix of unrestricted licences and PALs for taxi drivers only?

Stakeholders should provide objective evidence in support of their comments.



## 6. Key issue 4: Method to determine annual licence fees

### Potential methods to determine annual licence fees

As part of the 2012/13 annual licence release, Transport for NSW is seeking advice on a preferred method or methods of determining annual taxi licence fees. Section 32JA(1) of the PTA states that the annual fee for an annual licence (other than a WAT licence) must be determined by inviting applicants for the licence to bid for it via public auction or sealed tender.

However, S32JA(2) states that TfNSW, in circumstances that may be specified in regulation, may determine a licence fee for any such annual licence without complying with subsection (1).

Table 9 outlines potential licence fee methods for various release approaches:

**Table 9 Potential methods to determine annual licence fees**

Release approach	Pricing approach
Sealed tender	<ul style="list-style-type: none"> <li>Lowest successful bid (as used in Victoria)</li> <li>Pay-as-bid pricing model, with (compliant) bids selected from highest to lowest price bid (as used in NSW)</li> </ul>
Auction	<ul style="list-style-type: none"> <li>Revealed price</li> </ul>
Ballot	<ul style="list-style-type: none"> <li>Price set by Transport for NSW (as used in ACT, NT, and San Francisco)</li> </ul>

### Release and pricing approaches in other jurisdictions

A survey of available literature from several jurisdictions revealed that the release of non-transferable taxi licences is most commonly undertaken via ballot with a set pricing approach employed. Under a ballot approach, the price, number and any conditions of a licence are set and made publically available by the regulatory authority. Applicants register their details to participate in the ballot, which is conducted as a random draw with all applications entered. A ballot offers a random approach to the allocation of licences, and is not a market based mechanism.

There was limited evidence available from other jurisdictions on the use of auction and revealed price methods.

### Key advantages and disadvantages of pricing approaches

To date, annual licence fees have been set by tender. However, as raised in the 2011/12 advice, there are other models, such as used in Victoria where the lowest successful bid price is used for annual licence fees in that process.

In consultation undertaken for previous determinations, some stakeholders have stated concern over the price of licences and the possible implication for industry viability. Potential evidence to support this is the significant proportion of licences handed in that were above the average successful bid price. Alternative pricing methods in the licence release process could help to reduce licence prices. Although evidence is currently anecdotal, the process used by Victoria in 2009 to release fixed term conventional and wheelchair accessible

taxi licences may encourage lower licence prices, as the licence price assigned to all licences is determined by the lowest successful bid.

In December 2009, the Victorian Government announced the release of up to 530 fixed term conventional and wheelchair accessible taxi licences. In terms of the release process, licences were allocated on a competitive basis, inviting applicants to lodge bids outlining the number and type of licences sought. Bidders were required to nominate the price they were prepared to pay for those licences. All compliant bids were then pooled and ranked from highest to lowest by bid amount.

For the tender of 200 conventional licences, the Victorian Government identified the price bid for the 200th highest bid, which then became the single price at which the 200 licences would be sold. This meant that all but the 200th highest bidder paid a price lower than the price they bid during the tender process.

Key advantages and disadvantages of the pricing approaches outlined above are presented in Table 10.

**Table 10 Comparison of annual licence fee setting methods**

<b>Approach</b>	<b>Advantage</b>	<b>Disadvantage</b>
Pay-as-bid, with bids selected from highest to lowest bid price (current model)	<ul style="list-style-type: none"> <li>• Bidders nominate their own willingness to pay</li> <li>• Less chance of higher bids as a result of competition as in revealed price case</li> <li>• Reflects market price</li> </ul>	<ul style="list-style-type: none"> <li>• May result in what is seen as an inequitable outcome, as each bidder pays a different price for the same item</li> <li>• Lack of price visibility and inability to review or change bid</li> <li>• Greater potential for inadequate knowledge of true market price resulting in over-bidding</li> <li>• High variability in bid prices that may not reflect true market price</li> </ul>
Lowest successful bid (as per Victorian model described above)	<ul style="list-style-type: none"> <li>• Can be seen as more equitable than pay-as-bid as all successful bidders pay the same price for an identical item</li> <li>• Could reduce attrition rate of licences</li> <li>• Reflects market price</li> <li>• Lower probability that industry will pay too much</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of price visibility and inability to review or change bid</li> <li>• High variability in bid prices that may not reflect true market price</li> <li>• Could lead to market distortion from applicants bidding more than prepared to pay</li> </ul>
Revealed auction price (not aware of existing case studies)	<ul style="list-style-type: none"> <li>• Instantaneous prices revealed to all attending</li> <li>• More uniform knowledge among participants of true market price</li> <li>• Less variability in bid prices</li> </ul>	<ul style="list-style-type: none"> <li>• Bid price may be affected by the ability to see other bids</li> <li>• Revealed prices may lead to bidders competing, potentially resulting in higher bids</li> </ul>
Set price (as used in ACT <sup>31</sup> and NT <sup>32</sup> )	<ul style="list-style-type: none"> <li>• Price is known upfront before applicants decide whether or not to enter ballot</li> <li>• As long as the number of ballot applications exceed the number of licences available, government revenue may be forecast more accurately</li> </ul>	<ul style="list-style-type: none"> <li>• Non-market mechanism, therefore no guarantee that licences go to parties who exhibit the highest willingness to pay</li> <li>• May result in reduced revenue for government if price set too low</li> </ul>

<sup>31</sup> On 13 April 2011 the ACT Government released 41 non-transferable leased taxi licences by ballot, at a lease price of \$20,000 per annum. The option to pay in quarterly installments of \$5,000 is available. The fee may be adjusted (increased or decreased) during the life of the taxi licence, a term of 6 years. Further details available at:

[http://www.tams.act.gov.au/move/public\\_transport/taxi\\_services\\_and\\_information/taxi\\_license\\_ballot2](http://www.tams.act.gov.au/move/public_transport/taxi_services_and_information/taxi_license_ballot2)

<sup>32</sup> In 1998, the NT Government repurchased perpetual licences from owners at the prevailing market value (\$228k) and started issuing annual taxi licences for a fee of \$16,000 p.a. Licences are allocated through a strictly administered ballot. Further details available at:

<http://www.nt.gov.au/transport/taxi/pdf/ballot/09/infopack09.pdf>

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## ***Stakeholder feedback***

Key Issue 4

What do you consider as the best method to determine annual licence fees, and why?

What evidence is available to support alternative models of setting licence fees?

