



Passenger Services Business Unit
Western Australia Department of Transport

22 August 2011

Re: Update of the 2011 taxi fare increase

Further to your engagement letter received on 28 July 2011, this letter presents the updated 2011 taxi fare increase taking into account the revised Perth metropolitan Taxi Cost Index (TCI).

Scope of work

PwC was commissioned by the Western Australian (WA) Department of Transport (DoT) to review the movement in the TCI from September 2010 to June 2011 to determine the 2011 taxi fare increase. The original TCI model was based on the cost components recommended by PwC in the December 2008 report, *Recommendation report – new Perth metropolitan taxi fare model*.

For the purpose of the 2011 taxi fare increase, the scope of work undertaken by PwC includes:

- collection of publicly available data to estimate movements in the TCI cost components in the year to June 2011;
- collection of data provided directly by the DoT (note, the accuracy of input figures provided by the DoT have not been checked);
- update of the model based on movements in the cost inflators, including noting significant cost movements; and
- estimation of any increase in the TCI.

It should be noted that the review does not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements. Please also note that PwC procedures exclude exercising any opinions as to the accuracy, reasonableness or appropriateness of figure inputs provided by the DoT.

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Findings of the review

The table below presents the 2011 taxi fare increase based on each of the TCFI cost components.

| Cost component | Revised TIB weighting | Cost movement: 9mths to Jun 2011 | Contribution to fare increase | Cost escalation |
|--|-----------------------|----------------------------------|-------------------------------|---|
| Notional driver labour wages | 50.0% | 2.5% | 1.27% | WA Labour Price Index (LPI) |
| Notional operator labour | 1.7% | 2.5% | 0.04% | |
| LPG fuel | 6.1% | 9.0% | 0.55% | WA Metro LPG Prices from FuelWatch |
| Repairs & maintenance | 7.5% | -4.7% | -0.35% | CPI Motor vehicle repairs and servicing (Perth) |
| Other operator costs | 4.9% | 2.5% | 0.12% | CPI: All groups (Perth) |
| Comprehensive insurance¹ | 2.2% | 11.8% | 0.26% | Taxi Insurance Co-operative (TIC) |
| Third party insurance | 0.8% | 0.0% | 0.00% | DoT |
| Vehicle leasing / financing charges | 6.0% | 3.7% | 0.23% | RBA Small Business Term Loan Rate |
| Rank fees² | 4.9% | 8.0% | 0.39% | Swan Taxis |
| Sub-lease fees | 15.8% | 0.0% | 0.00% | DoT |
| Total | 100.0% | | 2.51% | |

Note: figures may not total due to rounding

¹ The comprehensive insurance cost represents the 'average' comprehensive insurance cost of conventional taxis. The 'average' comprehensive insurance cost for conventional taxis in June 2011 is compared to the 'average' comprehensive insurance cost for conventional taxis in September 2010. The information was collected by the DoT from the TIC

² The escalator for rank fees is the greater of the change in rank fees by Swan Taxis or the movement in CPI

Significant cost movements

The cost of comprehensive insurance has increased notably, by 11.8% over the nine month period according to the quote provided from DoT that was sourced from TIC.¹ Similar to the previous review, the cost of comprehensive insurance has recorded a 14.0% over the one year period from September 2009 to September 2010.

The record of fuel price indicates the average LPG price has increased 9.0% from previous period to the nine month average between October 2010 and June 2011. The increase is mainly contributed by

¹ The calculation was based on the 'average' premium with the basic excess. Note the basic excess has been increase from \$850 per claim up to \$1,000 per claim.



the high fuel price observed during the first six month of calendar year 2011 with the average level of around 71 cents per litre. The changes of Perth LPG prices were broadly the same when compared to the CPI indexed number for Australia automotive fuel sub-group.²

Around 0.39% of total cost escalation was contributed by the rank fee. As per the information provided by DoT, the rank fee has increased from \$125 per week to \$135 per week which was equivalent to an 8% lift.

The motor vehicle repair and servicing index in Perth recorded a marked decline over the period observed period, with the indexed number decline from 185.5 to 176.8, equivalent to 4.7% reduction. Similar to the findings of fuel price index, the reported movement was in-line with the overall Australian motor vehicle repair and servicing number.³ This reflects the operators have received a significant cost saving from the vehicle repairs and maintenance compared to the previous period, on average.

Conclusion

As a result of the update to the TCI model, the 2011 taxi fare increase is 2.51%. To put this into context and assuming an average fare of \$20, a 2.51% rise equates to a \$0.50 fare increase.

Yours sincerely,

A handwritten signature in black ink that reads 'Scott Lennon'. The signature is written in a cursive style with a large initial 'S'.

Scott Lennon
Partner

² ABS (2011) Cat 6401.0 Consumer Price Index, Australia – CPI: Group, Sub-group and Expenditure Class, weighted average of eight capital cities

³ Ibid