

Date: 30 October 2014

Item 6: Taxi Fares Update

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to provide an update to the Surface Transport Panel on the annual taxi fares and tariffs review.

2 Recommendation

2.1 **That the Panel notes the paper.**

3 Background

Taxi fares

3.1 The Metropolitan Public Carriage Act 1869 and the London Cab and Stage Carriage Act 1907 allow Transport for London (TfL) to make regulations setting taxi fares. TfL may prescribe fares based on time or distance or both and may prescribe different fares for different circumstances.

3.2 The London Cab Order 1934 ('the Cab Order') specifies the fares regime that covers most taxi journeys in London. The Cab Order provides that taximeters must be fitted to cabs to calculate the fare, sets out the fare structure and provides the maximum fare payable.

3.3 Article 40 of the 1934 Order provides the maximum fare payable, which is a hiring charge plus the applicable rate (a sum based on the time and distance travelled and the circumstances of the journey). Values prescribed in article 40 are programmed into taximeters which automatically calculate the amount the driver can charge. Drivers can charge lower fares if they wish.

3.4 Taxi fares are normally revised every April and the revision is based on changes to a cost index in use since 1981. The index combines changes in operating costs with national earnings to produce a change in average fares aimed at maintaining drivers' earnings net of operating costs. The cost index has worked largely satisfactorily since 1981 to ensure that the fares paid by taxi passengers reflect the costs of the taxi service. Taxi fares are normally changed on the first Saturday of April but sometimes this is deferred for a week to avoid the Easter weekend.

3.5 Specific provision has been made to cater for exceptional costs, such as the additional costs of making the fleet wheelchair accessible in the 1990s. In 2005 a 20 pence extra for all taxi journeys was introduced to cover the costs of bringing all taxis up to the Euro III emissions standard. The 20 pence emissions charge was included in the minimum fare which was set in The London Cab Order 2005.

- 3.6 The previous taxi fares revision was on Saturday 5 April 2014 when the following changes came into effect:
- (a) 0.7 per cent increase to average taxi fares;
 - (b) the telephone booking extra charge was extended to cover taxi journeys booked using mobile phones, smartphones, mobile applications and online services. This can only be added to the metered fare if the taxi booking company states in its terms and conditions for passengers that this charge applies;
 - (c) the credit and debit card payment surcharge changed to a maximum charge of £1.00 or 10 per cent of the metered fare;
 - (d) the Heathrow Airport extra that passengers pay was reduced from £3.20 to £2.80; and
 - (e) the fixed-fares for shared-taxis that operate during the Wimbledon Tennis Championships were revised.
- 3.7 The Board also approved extending the fuel threshold with a revised diesel threshold figure of 175.48 pence per litre.
- 3.8 A public consultation on the proposed increase to taxi fares for 2015/16 and whether or not to extend the fuel threshold arrangement is now planned. Based on the current cost index model used to calculate taxi fares, the proposed increase is 0.4 per cent, subject to the outcome of the consultation and the revised cost index calculations which will be carried out later this year.
- 3.9 The responses to the consultation will be used to inform any changes the Board is asked to approve including whether or not taxi fares are increased and whether or not the fuel threshold arrangement is extended.

4 Annual revision – General Change in Tariffs

Projected Cost Index Changes

- 4.1 The taxi cost index currently shows a proposed increase to taxi fares of 0.4 per cent and the projected licensed taxi cost index changes 2014 are shown in Table 1.
- 4.2 The index components are as normally used in the cost formula. 'Weight' is the proportion that the component contributes to the total cost per mile. 'Contribution to total' indicates the importance of each component's cost change in determining the overall cost change. It is calculated for each component as the product of its percentage cost increase and its weight. The Grand Total is the sum of the individual components' contributions. (Hence the Grand Total is 0.4 per cent rather than 0.3 per cent if read vertically without taking the weighting into account.)
- 4.3 The 'latest' column under 'Data availability' indicates the dates to which data in the 'cost increase' column relates.

Table 1. Projected licensed taxi cost index changes

Index Component	Cost Increase %	Weight %	Contribution to total %	Data availability
		Last Year		Latest
Vehicle Cost	1.6	9.0	0.1	August 2014
Parts	2.2	4.1	0.1	August 2014
Tyres	2.2	0.6	0.0	August 2014
Garage & servicing – premises	2.2	0.6	0.0	August 2014
Garage & Servicing – labour	2.2	2.0	0.0	August 2014
Fuel	-2.2	11.5	-0.3	Jun – Aug 2014
Insurance	-0.5	4.4	0.0	August 2014
Miscellaneous	-3.4	1.0	0.0	N/A
The Knowledge	0.6	5.3	0.0	May– Jul 2014
Social Costs	0.6	2.7	0.0	May– Jul 2014
Total Operating Costs	0.1	41.4	0.0	
Average national earnings	0.6	58.6	0.4	May– Jul 2014
Grand Total	0.4	100	0.4	

4.4 As agreed in 2011, costs for Parts, Tyres and Garaging will be uplifted by the yearly change in the Office for National Statistics (ONS) Retail Price Index (RPI) figure for “motoring expenditure: maintenance of motor vehicles” (DOCT) published on 14 October 2014.

4.5 The change in fuel costs relates to the change from the average of the AA diesel price for the three months to December 2013, to the three months to August 2014. This figure will be revised as further monthly data becomes available.

4.6 As agreed in 2011, costs for insurance will be uplifted by the yearly change in the ONS RPI figure for “motoring expenditure: vehicle tax and insurance” (DOCV) published on 14 October 2014.

4.7 Provisional Knowledge, Social Costs and Average National Earnings changes are derived from the ONS average weekly earnings averages for the three months to August 2013 and July 2014.

4.8 The ONS RPI figure for “purchase of motor vehicles” (DOCS) is being used to estimate vehicle cost whilst awaiting manufacturers’ figures.

4.9 The cost index will be updated in December 2014 with the latest fuel figures available which could increase or decrease the current proposed taxi fares increase of 0.4 per cent. At its meeting in February 2015 the Board will then be asked to approve the changes to taxi fares but any decision will be subject to the outcome of the consultation process.

Taxi Cost Calculations

4.10 Details of the taxi cost calculations are shown in Table 2.

Table 2. Taxi cost calculations

Component of index	Cost p per mile in 2013	Proportion of costs in 2014 %	Cost p per mile in 2014	Increase in costs 2014 %	Contribution to total increase %
Vehicle Cost	21.25	9.1	21.58	1.6	0.1
Parts	9.67	4.2	9.88	2.2	0.1
Tyres	1.43	0.6	1.46	2.2	0.0
Garage & Servicing - Premises	1.31	0.6	1.34	2.2	0.0
Garage & Servicing - Labour	4.63	2.0	4.73	2.2	0.0
Fuel	27.11	11.2	26.51	-2.2	-0.3
Insurance	10.41	4.4	10.36	-0.5	0.0
Miscellaneous	2.43	1.0	2.35	-3.4	0.0
The Knowledge	12.52	5.3	12.60	0.6	0.0
Social Costs	6.42	2.7	6.46	0.6	0.0
Total operating costs	97.19	41.2	97.28	0.1	0.0
Average national earnings	137.78	58.8	138.65	0.6	0.4
Grand Total	234.96	100.0	235.93		0.4

Parts, Tyres, Garaging and Servicing

- 4.11 In 2011 a study was conducted comparing the changes in costs associated with parts, tyres, garaging and servicing incorporated into the cost index over recent years with the yearly changes in the ONS RPI figure for DOCT. The study concluded that the two series were comparable and it was agreed to use this ONS RPI figure to represent these cost index items in future.
- 4.12 In August 2014 the DOCT RPI series showed an annual increase of 2.2 per cent. This gives an increase in the cost per mile of these components from 17.04 pence in 2013 to 17.42 pence in 2014.

Fuel

- 4.13 The Derv price index from Arval, which has been used to calculate the change in fuel price, was discontinued in 2013. In deciding on an alternative source of fuel price data analysis of London diesel prices from the AA (available at www.theaa.com/motoring-advice/motoring-costs.html) shows close correlation with the Arval Derv price index. Based on AA data last used to calculate the index, the average fuel price over the three months to December 2013, was compared with the AA average price over the latest three months to August 2014. This gives a value of 135.0 pence per litre compared to 138.1 pence, giving a decrease of 2.2 per cent.

Insurance

- 4.14 A similar comparison to that made for parts, tyres and garaging costs was made of previous years' cost index insurance figures versus the ONS RPI series figure for DOCT, and again it was decided to use the RPI figure in future cost index revisions.

- 4.15 In July 2014 the DOCV RPI series showed a decrease of 0.5 per cent compared to the benchmark October price level used to calculate the last index. This gives a decrease in the cost per mile of these components from 10.41 pence in 2013 to 10.36 pence in 2014.

Miscellaneous

- 4.16 This comprises the cost of hiring a meter, smoke test, vehicle licence and driver licence. The requirement for a receipt printer to be installed in all taxis was removed from 1 January 2013. The average cost in 2013 was £498 or 2.43 pence per mile. The average cost in 2014 was £481 or 2.35 pence per mile, giving a decrease of 3.4 per cent.

Earnings Related

- 4.17 The latest average weekly earnings data (headline rate ONS series KAC3) show a 0.6 per cent year on year increase for the three months to July 2014, compared to the three months to August 2013 used for the 2014 index. This gives a cost per mile figure for the updated index of 138.6 pence, representing 58.8 per cent of the total index cost.
- 4.18 The “knowledge” and “social” costs have also been uplifted each year in line with national earnings. In 2014 these increased to 12.60 pence and 6.46 pence respectively, together representing a further 8.1 per cent of the total index cost.

Changes Based on a 0.4 Per Cent Increase

- 4.19 Details of the current and new average taxi fares for each tariff and the proposed tariff changes based on a 0.4 per cent increase are shown in Table 3 and Table 4 respectively.
- 4.20 The cost index is composed of a number of different elements and changes to these contribute to the overall change to taxi fares. When there are large changes to one of these elements this will result in larger increases to taxi fares, for example in 2012 the average fare increase was 5.3 per cent.

Table 3. Current and new average taxi fares

	Current average (£)	New average (£)	Increase (£)	Increase (%)
Tariff 1	11.51	11.56	0.05	0.4
Tariff 2	13.34	13.40	0.06	0.4
Tariff 3	15.67	15.73	0.06	0.4
All Week	12.72	12.77	0.05	0.4

Table 4. Proposed tariff changes based on a 0.4 per cent increase

	Tariff 1		Tariff 2		Tariff 3	
	Current	New	Current	New	Current	New
minimum fare	£2.40	£2.40	£2.40	£2.40	£2.40	£2.40
minimum units	2	2	2	2	2	2
metres/unit < 6 miles	126.2	125.6	102.5	102.0	82.7	82.4
secs/unit < 6 miles	27.1	27.0	22.0	21.9	17.8	17.7
metres/unit > 6 miles	88.5	88.1	88.5	88.1	88.5	88.1
secs/unit > 6 miles	19.0	18.9	19.0	18.9	19.0	18.9
Units at lower rate	76	76	94	94	116	117
Metres at lower rate	9,591.2	9,545.6	9,635.0	9,588.0	9,593.2	9,640.8
changeover fare	£17.40	£17.40	£21.00	£21.00	£25.40	£25.60

- 4.21 Research from 2013 showed that over two thirds (68 per cent) of taxi passengers thought that taxi fares were either a little too expensive or much too expensive with just under one third (30 per cent) thinking that fares were about right¹. However, taxi fares and any increases should not become a barrier to people using taxis late at night or any other time of the day.
- 4.22 A 0.4 per cent increase to taxi fares will help ensure that drivers are able to meet their overhead costs and maintain earnings. It is important to ensure that taxi drivers are able to meet these, so that taxi driving remains a viable career for drivers who have invested time and money in completing the Knowledge of London and the supply of licensed taxis, especially at key times such as late at night, is not reduced by drivers reducing their working time or leaving the trade.
- 4.23 Although a 0.4 per cent increase is below the Consumer Prices Index (CPI) and RPI figures of 2.4 per cent and 1.5 per cent respectively², the increase has been calculated using the cost index which takes into account the operating costs for taxi drivers and follows an above inflation increase of 5.3 per cent in 2012 and then increases of 1.7 per cent and 0.7 per cent in 2013 and 2014 respectively.

5 Fuel Threshold Extension

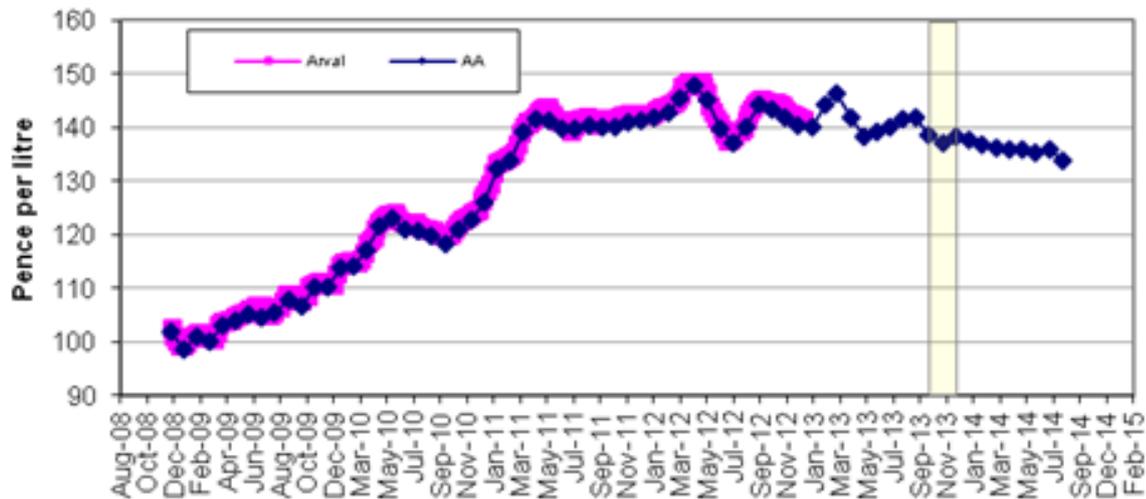
- 5.1 Since July 2008, special provisions have been in place to allow an extra charge to be added to taxi fares if London average diesel costs reached a threshold level, in order to compensate drivers for significant mid-year rises in fuel costs. If diesel costs reached this level then the Cab Order would be amended to include this extra charge. The Board approved extending this arrangement at its meeting in February 2014, with a 40 pence extra for each journey charged if London retail diesel fuel prices (as measured by the AA Fuel Report index) reached the threshold level of 175.48 pence per litre at any point between Saturday 5 April 2014 and Friday 10 April 2015.
- 5.2 The graph in Table 5 shows fuel price changes over recent years. The Arval index has previously been used to measure London retail diesel fuel prices but is no longer published and the average diesel price is now taken from the AA fuel price

¹ Taxi and Minicab Passenger Customer Satisfaction Survey, TNS, 2013/14

² BBC Economy tracker <http://www.bbc.co.uk/news/10612209>

report³. The AA fuel price report will be used as this provides a reliable and trusted source for fuel prices. Although fuel prices are only published monthly, historical figures have closely followed the Arval index.

Table 5. London diesel prices at the pump – AA and Arval



5.3 The fuel threshold figure will be updated with the latest fuel figures available in December 2014. Extending the fuel threshold arrangement will be consulted on.

6 Crime and Disorder

Annual Revision – General Change in Tariffs

6.1 TfL has a duty under section 17 of the Crime and Disorder Act 1998 to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent:

- (a) crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment);
- (b) the misuse of drugs, alcohol and other substances in its area; and
- (c) re-offending in its area.

6.2 Licensed taxis play a vital role in providing safer transport late at night. A balance needs to be maintained between ensuring that taxi drivers are encouraged to work late at night but that the public does not perceive taxis as unaffordable and see illegal, unsafe ‘cabs’ as a cheaper and preferable option.

6.3 All responses to the consultation will be reviewed and taken into consideration before any recommendations are submitted to the Board to consider.

Fuel Threshold Extension

6.4 No significant crime and disorder implications have been identified if the fuel extra arrangement is extended.

³ The AA fuel price report http://www.theaa.com/motoring_advice/fuel/

7 Public Sector Equality Duty

- 7.1 TfL must have 'due regard' to the need to eliminate unlawful discrimination, harassment and victimisation as well as to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not under section 149 of the Equality Act 2010. Due regard that is appropriate in all of the circumstances must be had at the time decisions are taken. This may involve removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet the needs of such people; and encouraging them to participate in public life, or in any other activity where their participation is disproportionately low. The "protected" characteristics and groups are: age, disability, gender reassignment, pregnancy and maternity, race, gender, religion or belief, sexual orientation and marriage/civil partnership status. Compliance with this obligation may involve treating people with a protected characteristic more favourably than those without the characteristic.

Annual Revision – General Change in Tariffs

- 7.2 Taxis are heavily used by disabled and elderly Londoners and visitors to London and these 'protected' groups will be affected by any fare increase. A public consultation on changes to taxi fares will be conducted and anyone, including disabled and elderly taxi passengers and organisations that represent them, can comment on the proposals and submit their comments or concerns to TfL. The consultation also been sent to Age UK, Independent Age, London MPs and London TravelWatch. All responses to the consultation will be reviewed and taken into consideration before any recommendations are submitted to the Board to consider. The Board will be invited to have regard to the public sector equality duty at the time any decision is made to change fares.
- 7.3 Although an increase to taxi fares will affect disabled and elderly passengers and Taxicard users, meaning that they will pay higher fares for the same trips, as the fare increase is lower than in previous years the impact is relatively small.

Fuel Threshold Extension

- 7.4 No significant equality and inclusion implications have been identified if the fuel threshold arrangement is extended, other than where this may result in an increase in fares as mentioned above.

8 Financial Implications

Annual Revision – General Change in Tariffs

- 8.1 TfL makes a contribution of approximately three quarters of the cost to the Taxicard scheme. The current multi year agreement between TfL and London Councils provides for TfL to give a fixed rate grant of £9.4m (+£0.3m transition allowance) in 2012/13 and in future years 2013-2016 inclusive, TfL's grant to the Taxicard scheme will be based on the 2012/13 settlement, uplifted by the annual April Taxi Tariff increase. It will be the responsibility of the participating London boroughs to provide any annual top up funding required between 2012-16 inclusive to fund local variations in provision.

Fuel Threshold Extension

- 8.2 No significant financial implications have been identified if the fuel threshold arrangement is extended.
- 8.3 The cost index will be updated with the latest fuel figure prior to the Board meeting and so could be lower or higher than 0.4 per cent.
- 8.4 The crime and disorder implications, public sector equality duty requirements and financial implications will be reviewed prior to the Board being asked to approve any changes to taxi fares. Any increase or decrease which is significantly different to 0.4 per cent and has further implications will be included in the paper for the Board so as they can consider this.

List of appendices to this report:

None

List of Background Papers:

None

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