

# Customer Service and Operational Performance Panel



**Date:** 30 January 2017

**Item:** Taxi Fares and Tariffs Update

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## **This paper will be considered in public**

### **1 Summary**

- 1.1 The purpose of this paper is to update the Panel on activity taken in relation to 2017/18 taxi fares, the next steps prior to the final set of proposals going to the Board on 29 March 2017, and further work that will be undertaken with regards to 2018/19 taxi fares.

### **2 Recommendation**

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

### **3 Background**

- 3.1 The Metropolitan Public Carriage Act 1869 and the London Cab and Stage Carriage Act 1907 allow 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 and that taximeters must be fitted to cabs to calculate the fare, sets out the fare structure and provides the maximum fare payable. Drivers can charge lower fares if they wish.
- 3.3 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.
- 3.4 In February 2016, the TfL Board requested a review of taxi fares, taxi tariffs and the means by which the Cost Index worked. This followed questions about how we balanced our responsibilities to customers to keep fares affordable and attractive against the need to adequately compensate taxi drivers for changes in their costs. Members questioned the regular incremental increases to taxi fares to compensate drivers for market changes and requested a full review of the formula that has been in place since 1981.
- 3.5 The Taxi and Private Hire Action Plan (published in September 2016) includes a commitment to review the annual taxi fares process 'to ensure drivers and customers get the best deal'.

3.6 In light of the above, we commissioned Systra (a transport consultancy) as an independent agency to undertake the review, which carried out a number of passenger and taxi driver surveys to inform their recommendations.

## 4 Systra Report

### Summary

4.1 The Systra report finds that, by and large, the existing Cost Index formula remained the most fair and reasonable way of adjusting taxi fares to take account of year-on-year cost variations. The main change it recommends is removing the 'Social Costs' aspect of the Cost Index. This was originally introduced to compensate drivers working late at night. However, this is now effectively duplicated by Tariff 3 (Tariff structure set out in Section 4.6). We are therefore consulting on a proposal that these costs should not be duplicated for passengers travelling later at night.

### Cost Index

4.2 The Cost Index is broken down as:

<b>Vehicle Costs:</b>	<b>Weighting %</b>
Ownership costs:	9.1
Parts:	4.2
Tyres:	0.6
Garage & servicing (premises);	0.6
Garage & servicing (labour):	2.0
Fuel:	10.6
Insurance:	4.5
Miscellaneous:	1.0
Total Vehicle Costs:	32.5
<b>Salary Components:</b>	
Acquiring the Knowledge:	5.4
Social Costs (anti-social hours)	2.8
National average earnings:	59.3
Total Salary Elements:	67.5
<b>Grand total:</b>	<b>100</b>

4.3 The application of the existing 1981 formula, adjusted by the Cost Index Model to reflect changes in operating costs, would generate an overall increase in fares of 3.3 per cent for 2017/18 taxi fares.

4.4 The report also proposed a number of changes to the various individual tariffs, primarily to improve the competitiveness of taxi fares within the wider market place by lowering the cost of journeys for late night and longer distance customers, whilst compensating taxi drivers by increasing the minimum (so called 'flag fall') fare for all journeys.

- 4.5 We believe that these proposals, taken as a package, will have benefits to both customers and taxi drivers alike, and make taxis generally more competitive in the wider marketplace. The proposals being consulted on are as follows:

### **Current Tariff Structure**

- 4.6 There are currently four taxi tariffs that TfL mandates and applies to meters fitted in each and every licensed London taxi for different times of the day and distances of journeys made. They are currently:

<b>Existing Tariffs 2016/17</b>			
Tariff 1	Journeys up to six miles	Mon-Fri: 05.00-20.00	£2.59 per mile
Tariff 2	Journeys up to six miles	Mon-Fri: 20.00-22.00 Sat-Sun: 05.00-22.00	£3.19 per mile
Tariff 3	Journeys up to six miles	Every night: 22.00-05.00 Public Holidays	£3.96 per mile
Tariff 4	Journeys over six miles	At all times	£3.70 per mile

### **Proposed Tariff Structure for consultation**

- 4.7 The two key recommendations Systra proposed with regards to the tariff structure were:
- (a) Reducing Tariff 3 (22.00 to 05.00 every night) from the current rate of £3.96 per mile to £3.50 per mile (however we are proposing £3.70, which is in line with Tariff 4); and
  - (b) Changing when the tariff rate for longer journeys (Tariff 4) starts from six miles to 12 miles.
- 4.8 To compensate drivers for likely reduced income from trips between six and 12 miles, Systra recommended increasing the minimum taxi fare (the 'flagfall') from £2.60 to £3.00. (The current flagfall is low compared to other UK towns and cities where the costs of operation are often cheaper).
- 4.9 The following table sets out the net effect of the proposed changes in the four fare tariffs and compares them to the fares that would have been recommended if no changes were to be made (other than adjustment by the cost index model that has been used historically):

Current Tariff Structure	Current Fares per mile	Revised Fares (If using existing formula - currently projects a 3.3 per cent increase)	Proposed Revised Tariff Structure	Proposed New Fares (If using Systra recommendations – generating a 3.2 per cent increase)
<b>Tariff 1</b> Mon-Fri: 05.00 & 20.00  Journey up to six miles	£2.59	£2.68	<b>Tariff 1</b> Mon-Fri: 05.00 & 20.00  Journey up to 12 miles	£2.67
<b>Tariff 2</b> Mon-Fri: 20.00 & 22.00  Sat-Sun: 05.00 & 22.00  Journey up to six miles	£3.19	£3.30	<b>Tariff 2</b> Mon-Fri: 20.00 & 22.00  Sat-Sun: 05.00 & 22.00  Journey up to 12 miles	£3.29
<b>Tariff 3</b> Every night: 22.00 & 05.00  Public Holidays  Journey up to six miles	£3.96	£4.09	<b>Tariff 3</b> Every night: 22.00 & 05.00  Public Holidays  Journey up to 12 miles	£3.82
<b>Tariff 4</b> At all times  Journey over 6 miles	£3.70	£3.82	<b>Tariff 4</b> At all times  Journey over 12 miles	£3.82
Flag Fall Fare	£2.60	£2.60	Proposed New Flag Fall	£3.00

4.10 Under these proposed changes:

- (a) A day time weekday taxi fare for a six mile long trip would increase by 88p (4.8 per cent) from £18.14 to £19.02, compared to only increasing by 54p (2.9 per cent) if only the existing cost index model were to be applied;
- (b) However, a 12 mile long day time weekday trip would *decrease* by £5.30 (13 per cent) from £40.34 to £35.04, instead of increasing by £1.26 (3.1 per cent) if only the existing cost index model were to be applied; and
- (c) A six mile long night time journey made between 22.00 and 05.00 (or at anytime on a public holiday) would *decrease* by 44p (1.75 per cent) from £26.36 to £25.92, instead of increasing by 78p (3.0 per cent) if only the existing cost index model were to be applied.

4.11 In addition to the above, we are also consulting on:

- (a) Continuing the present arrangement that allows taxi drivers to add an extra charge of 40 pence if fuel prices increase significantly and reduce fares by 40 pence if fuel prices fall significantly;
- (b) Increasing the soiling charge from £40 to £60 to better recompense drivers for lost time and the actual costs of (potentially deep) cleaning, but also act as a deterrent. A figure of £60 is in the range of penalty fare charges on public transport in London (£80, or £40 for early repayment); and
- (c) Updating the taximeter specification to allow for the annual tariff update to be implemented remotely.

4.12 Finally we are consulting stakeholders on Systra's longer terms suggestions, for information only at this time, that:

- (d) More flexibility be given to taxi companies when setting fixed fares for booked taxi journeys; and
- (e) Reviewing options for fixed fares to Heathrow airport from central London and capped fares from Heathrow to central London. While we have consulted on this before, we recommend we include this in the consultation.

4.13 On 10 January 2017 we launched a public consultation based on the recommendations in the Systra report which we considered in the best interests of passengers and drivers, alongside other changes we propose to make. The consultation will close on 19 February 2017 with the final proposals submitted for Panel consideration 2 March 2017 and Board approval on 29 March 2017. Any approved changes to fares and tariffs will be implemented in spring 2017.

## **5 Issues For Further Investigation**

5.1 While the Systra report considers a number of important and relevant points, two areas that it does not cover are:

- (a) whether the fare level represents a reasonable level of remuneration for a taxi driver; and

(b) The question of price elasticity of demand and optimising value for money for the customer and cost efficiency for taxi drivers.

5.2 TfL is therefore proposing to undertake further work in this area.

## **6 Legal Implications**

6.1 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 and is an ongoing obligation. 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.

6.2 Taxis are heavily used by disabled and elderly Londoners and these protected groups will be affected by any fare increase. The public consultation on changes to taxi fares gives an opportunity to anyone, including disabled and elderly taxi passengers and organisations that represent them to comment on the proposals and submit their comments or concerns to TfL. The consultation was sent to Age UK, Independent Age, London Members of Parliament, Transport for All and London TravelWatch.

### **List of appendices to this report:**

None.

### **List of Background Papers:**

All papers associated with the consultation, including the Systra report, can be accessed at: <https://consultations.tfl.gov.uk/tph/taxi-fare-and-tariff-review-2017/>.

Contact Officer: Garrett Emmerson, Chief Operating Officer, Surface Transport  
Number: 020 3054 0189  
Email: GarrettEmmerson@tfl.gov.uk