

TRANSPORT FOR LONDON

BOARD

SUBJECT: TAXI FARES AND TAXI AND PRIVATE HIRE LICENCE FEES

DATE: 10 FEBRUARY 2009

1 PURPOSE AND DECISIONS REQUIRED

- 1.1 The purpose of this paper is to request that the Board approve the proposed changes to taxi fares and note the proposed changes to taxi and private hire vehicle (PHV) licence fees. This paper was recommended to the Board by the Finance Committee at its recent meeting on 27 January 2009.

2 BACKGROUND

Taxi fares

- 2.1 Taxi fares are normally revised each April based on changes to a cost index in use since 1981. The index, agreed with the taxi trade, combines changes in operating costs with national earnings to produce a change in average fares aimed at maintaining drivers' earnings net of operating costs. Details of the current cost index are given in Appendix 1.
- 2.2 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 and PHV Licence fees

- 2.3 The Metropolitan Public Carriage Act 1869, as amended by the Greater London Authority Act 1999, enables the licensing authority (TfL) to charge for taxi driver and taxi applications, and for licensing application tests and re-tests, as well as charging for driver and vehicle licences.
- 2.4 Changes to taxi driver and taxi licence fees do not require regulations. They may be changed by administrative decisions made by the Managing Director Surface Transport who is responsible for the Public Carriage Office (PCO).
- 2.5 Under Standing Order Number 2 the amendment of PHV regulations for the purposes of ensuring that licence fees cover the cost of licensing activities is a matter delegated to the Commissioner.
- 2.6 Licence fees are reviewed every year. The principle behind fee setting is to reflect the cost to the PCO of carrying out each licensing activity without cross subsidy from one activity to another.

3 TAXI FARES

Consultation

- 3.1 Taxi trade organisations, together with London TravelWatch and the London Chamber of Commerce and Industry, were asked by the PCO to provide responses to the following proposals:
- (a) a tariff change in April 2009 based on the cost index figure, implemented by adjusting the mileage and time rates to give the appropriate change in average fares;
 - (b) authorisation of an additional charge or metered extra to be introduced if fuel prices reach a threshold level before January 2010;
 - (c) a one-off adjustment to allow drivers to recoup the costs incurred because of high fuel prices in spring and summer 2008; and
 - (d) any other related matters on which they wished to comment.
- 3.2 The main drivers' associations and others consulted support the application of the cost index to determine the level of tariff change. One of the large radio taxi companies qualifies this support by suggesting that a substantial increase in fares might reduce demand in the current economic climate. London TravelWatch also considered that a fares freeze or reduction might be in the interests of both passengers and the trade.
- 3.3 There is no support for a retrospective adjustment for 2008 fuel cost increases.
- 3.4 The main drivers' associations support the retention of the provisional arrangement to cater for rises in fuel costs.

Proposals

- 3.5 It is proposed to implement an increase of 3.4% in average fares across all three tariffs in line with the increase in the cost index (Annex 1) with effect from Saturday 4 April 2009. This compares with the latest available Retail Price Index inflation figure of 3.0 per cent and a Consumer Price Index increase of 4.1% (both November 2008). The table in Appendix 2 shows the current and revised average fares for each tariff.
- 3.6 No change is proposed to the £2.20 "flag fall". The distance and times allowed for each 20p increment in the fare will be reduced so that the average fare in each of the three charging periods will increase by the proposed 3.4%.
- 3.7 On 30 July 2008, the Board approved a 50p additional charge or metered extra, to be applied no later than 1 February 2009, if and when fuel prices reached a threshold consistent with such a rise. The aim was to compensate drivers for particularly high mid-year rises in fuel costs.

- 3.8 It is proposed that the size of this extra be reduced from 50p to 40p. If the extra remains at 50p then the threshold fuel price would be 156.6p/litre. A lower fuel trigger means that drivers would be compensated earlier should fuel prices rise steeply, but the 40p threshold is considered to offer reasonable stability while limiting the additional costs borne by drivers without compensation. Fuel price increases in 2008 were not sufficient to activate either a 40p or 50p fuel trigger.
- 3.9 The Board is approve a 40p metered extra to be charged only when London retail diesel fuel prices (as measured by the Arval index) reaches the threshold level of 147.1p/litre between the date of the tariff revision and 1 January 2010. This would require a 34.2% increase in fuel prices during the year. If the threshold diesel price is reached, appropriate publicity materials (including stickers to be displayed in the taxi) would be circulated to ensure passengers and drivers were aware of the metered extra fuel charge.
- 3.10 Once in place, the metered extra would remain in force until the annual tariff revision on 10 April 2010, even if fuel prices fell subsequently. If the fuel price did not reach the threshold level by 1 January 2010, the metered extra would not be authorised because any adjustment after that date would be too close to the fares revision that is due to take place in April 2010.

4 LICENCE FEES

- 4.1 A review of licence fees for 2009/10 based on Quarter 3 forecasts for the 2008/09 outturn has been undertaken taking into account the following factors:
- (a) the reduction in costs arising from the abolition of taxi mid-year inspections, approved by the Board on 5 November 2008;
 - (b) the outcome of negotiations with SGS (the inspections contractor) to vary the contract as a result of the decision to abolish taxi mid-year inspections. SGS has been providing the PCO with PHV licensing and inspection services since April 2004, and taxi licensing and inspection services since April 2007;
 - (c) the outcome of negotiations with SGS to vary the contract to take account of:
 - (i) SGS inspections to clear stop-notes in respect of PHVs that have failed an on-street inspection. There is no requirement in the contract for SGS to undertake such inspections;
 - (ii) annual PHV licensing inspections that SGS is undertaking over and above the contracted volumes; and
 - (d) the PCO's budget and plan.

Taxi licence fees

- 4.2 Annual taxi licence fees were reduced from £178 to £160, effective from 6 November 2008 to reflect the abolition from that date of taxi mid-year inspections. Refunds of £18 are being made to all taxi owners who have paid the higher licence fee of £178 and whose cabs have not been required to undergo a mid-year inspection.
- 4.3 It is now proposed to increase taxi licence fees from £160 to £164 effective from Wednesday 1 April 2009. This is a 2.5% increase.

- 4.4 With the exception of the licence fee increase in July 2007 to pay for the mid-year inspection, taxi licence fees have not increased since April 2004. Annual inflationary increases from 2004 would have seen taxi licence fees at £172 effective from April 2009, 4.9% higher than the proposed increase to £164.

Private hire vehicle licence fees

- 4.5 It is proposed to increase the overall cost of the PHV vehicle licence fee from £109 to £114 (a rise of 4.6%) effective Wednesday 1 April 2009 for the reasons given at paragraph 4.1(c) above.
- 4.6 PHV licence fees have not changed since April 2005. Annual inflationary increases since 2005 would have seen PHV licence fees increase to £121, 6.1% higher than the proposed increase to £114.

Private hire operator licence fees

- 4.7 PHV operator licence fees have remained unchanged since April 2006 and there are no plans to change the fee levels for 2009/10.

Other licence fees

- 4.8 There are no proposals to change licence fees for 2009/10 in respect of taxi drivers and PHV drivers.

5 CRIME AND DISORDER

- 5.1 There are no known impacts for the proposals in respect of taxi fares and licence fees.
- 5.2 Keeping the differentials between day, evening and night fares, as proposed, will help maintain the supply of licensed taxis at night, to support their role as a safe all-night service.

6 RISK MANAGEMENT

- 6.1 No material risks have been identified as a result of the proposals set out in this paper.

7 SUSTAINABILITY

- 7.1 It is not considered that there will be any adverse consequences arising from the proposals contained in this paper.

8 EQUALITY AND INCLUSION

- 8.1 No implications for equality and inclusion have been identified in respect of the proposals regarding licence fees.
- 8.2 The equality and inclusion perspective in respect of taxi fares and related proposals is assessed below under the section dealing with the financial implications.

9 FINANCIAL

- 9.1 The proposed adjustments to licence fees will ensure that the PCO costs of taxi and private hire licensing are met from fee income, as allowed by the relevant legislation. Failure to make the increases proposed would lead to a net cost to TfL.
- 9.2 TfL makes a substantial contribution, of roughly two thirds of the costs, to the Taxicard scheme. TfL's contribution in 2008-9 is forecast to be £11m, and £12.7m is budgeted for 2009-10, an increase of 16%. This amount will be reflected in an agreement with London Councils for 2009-10 as the maximum amount available from TfL. A 3.4% increase in fares could result in an aggregate increase to the boroughs and TfL in the cost of Taxicard provision of around £600k in 2009-10. London Councils manages the Taxicard contract and coordinates membership, contract management and usage of the scheme for the participating London Boroughs. London Councils are fully aware of TfL's budgeted provision for the year.

10 RECOMMENDATIONS

- 10.1 The Board is asked to NOTE the contents of the paper and:
- (a) APPROVE an increase of 3.4% in average fares across all three taxi tariffs with effect from Saturday 4 April 2009, and that the Board APPROVE the making of a London Cab Order to implement the new fares to be signed by the Commissioner (and in his absence the Managing Director Surface Transport);
 - (b) AUTHORISE a 40p metered additional charge to be implemented only if London retail diesel prices (as measured by the Arval index) reach or exceed the threshold level of 147.1p/litre between 4 April 2009 and 1 January 2010, subject to paragraph 10.1(d) below;
 - (c) DELEGATE to the Commissioner (and in his absence the Managing Director Surface Transport) the making and signing of a London Cab Order to implement the additional charge recommended in paragraph 10.1(b) above;
 - (d) NOTE that any introduction of an additional 40p metered fuel charge would not extend beyond Saturday 10 April 2010;
 - (e) NOTE that the Commissioner (and in his absence the Managing Director Surface Transport) will make regulations to take effect from Wednesday 1 April 2009 to implement an increase of £5 to the PHV application/inspection fee, thus increasing the overall charge from £109 to £114; and
 - (f) NOTE that taxi licence fees were reduced by £18 from £178 to £160 effective from 6 November 2008, and that it is proposed to increase them by £4 to £164 with effect from Wednesday 1 April 2009.

11 CONTACT

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Licensed Taxi Cost Index Changes for April 2009 Tariff Changes

Index Component ¹	Cost Increase	Weight ²	Contribution to Total ³
		<i>Last Year</i>	
Vehicle Cost	-2.7%	9.4%	-0.3%
Parts	9.3%	3.8%	0.4%
Tyres	9.1%	0.5%	0.0%
Garage & servicing – premises	1.7%	0.6%	0.0%
Garage & Servicing – labour	3.9%	1.9%	0.1%
Fuel	4.1%	10.4%	0.4%
Insurance	14.7%	3.1%	0.5%
Miscellaneous	-1.0%	1.1%	0.0%
The Knowledge	3.3%	5.5%	0.2%
Social Costs	3.3%	2.8%	0.1%
Total Operating Costs	3.5%	39.1%	1.4%
Average national earnings	3.3%	60.9%	2.0%
Grand Total		100%	3.4%

Notes

1. The index components are as normally used in the cost formula. Further details are available on request.
2. 'Weight' is the proportion that the component contributes to the total cost per mile.
3. '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.

Tariff Changes – 3.4% average fare increase

	Current average	New average	Increase (£)	Increase (%)
Tariff 1	£9.82	£10.16	£0.33	3.4%
Tariff 2	£11.39	£11.78	£0.38	3.4%
Tariff 3	£13.37	£13.83	£0.46	3.4%
All Week	£10.86	£11.22	£0.37	3.4%