A National Formula for Setting Hackney Carriage Fares

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The setting of taxi fares

The 'taxi' trade provides an essential service to travelling members of the public, from early morning trips to the airport to late night journeys home after a night out, and everything of a more day to day nature in between. The principle of each journey is going from point A to B (occasionally via C and D and back to A again) for which a price is payable.

For most journeys undertaken in a taxi (hackney carriage) the fare is restricted to the maximum as displayed on the meter. Most customers will pay the meter price, occasionally giving a 'tip' although disputes over prices can and do happen, either leading to complaints to the authority, or worse still altercations between driver and passenger.

The taxi licensing regime is relatively unique in providing the means for regulators to restrict price. The legal power of fare setting hackney carriage fares lies within section 65 of the Local Government (Miscellaneous Provisions) Act 1976, which says (emphasis added):

> **"65 Fixing of fares for hackney carriages.**
>
> (1) A district council **may** fix the rates or fares within the district as well for time as distance, and all other charges in connection with the hire of a vehicle or with the arrangements for the hire of a vehicle, to be paid in respect of the hire of hackney carriages by means of a table (hereafter in this section referred to as a "table of fares") made or varied in accordance with the provisions of this section."

The legal power to set fares is a discretionary function – 'a district council **may** fix the rates' – they don't have to. In practice, taxi fares are capped in most areas, presumably to create a level playing field, and to provide public protection from unscrupulous charging practices.

There is further guidance on fare setting to Licensing Authorities under the DfT Best Practice Guidance (emphasis added):

> "52. Local licensing authorities have the power to set taxi fares for journeys within their area, and most do so. (There is no power to set PHV fares.) Fare scales **should be designed with a view to practicality**. The Department sees it as good practice to **review the fare scales at regular intervals**, including any

graduation of the fare scale by time of day or day of the week. Authorities may wish to **consider adopting a simple formula** for deciding on fare revisions as this will increase understanding and improve the transparency of the process. The Department also suggests that in reviewing fares authorities should pay particular regard to the needs of the travelling public, with reference both to what it is reasonable to expect people to pay but also to the need to give taxi drivers sufficient incentive to provide a service when it is needed. There may well be a case for higher fares at times of higher demand.

> 53. Taxi fares are a maximum, and in principle are open to downward negotiation between passenger and driver. It is not good practice to encourage such negotiations at ranks, or for on-street hailings; there would be risks of confusion and security problems. But local licensing authorities can usefully make it clear that published fares are a maximum, especially in the context of telephone bookings, where the customer benefits from competition. There is more likely to be a choice of taxi operators for telephone bookings, and there is scope for differentiation of services to the customer's advantage (for example, lower fares off-peak or for pensioners).

> 54. There is a case for allowing any taxi operators who wish to do so to make it clear – perhaps by advertising on the vehicle – that they charge less than the maximum fare; publicity such as '5% below the metered fare' might be an example."

As shown above, the DfT suggest that fares should be practical, potentially set using a simple formula and regularly reviewed. Despite the reference to formula, there is no suggestion on what that formula should look like.

A quick glance at benchmarking data of hackney fares by licensing authority published monthly in PHTM shows such huge variation, with fares over a 2-mile journey ranging from under £5 to over £9 (or over £10 for London Heathrow). Geographically, while it is likely that there are regional cost fluctuations, the distance from one of the joint lowest (Aylesbury Vale) to the highest (London Heathrow) is less than 40 miles. A study of the table will also reveal that some

licensing authorities have not reviewed their fares for several years (some since 2007). Surely there is scope for more consistency for the public and taxi industry.

In my own area, it is widely known that Guildford's decision to reduce fares in 2016 was challenged by way of judicial review. The formula used in Guildford was subject to significant scrutiny as a result of the JR and sharing that experience may assist other licensing authorities in their own work on fare setting in light of the DfT Best Practice Guidance.

In 2011 Guildford's Licensing Committee instructed officers to establish an objective formula / methodology for fare setting. This followed years of fare setting following discussion with trade representatives, with no structured support / methodology behind it.

The starting point was the London Cost Index, followed by nearly two years of discussion with the trade and external audit to develop a formula which was approved by the Council's Executive in 2013. The methodology was subsequently used to calculate fares in 2013 and again in 2015. In 2015 however, the formula indicated that fares should reduce due to falls in motoring costs. At the same time, Guildford was consulting on potential changes to its licensing policy, which would result in additional costs relating to taxi livery and driver training. As a result, the decision was taken not to alter fares at that time.

Once the new policy was adopted, a further review of taxi fares was instigated in consultation with the trade on the data used to calculate fares. The review of the costs of running a taxi in Guildford was considered by the Executive in 2016, culminating in the production of a new (reduced) table of fares which was consulted upon, approved, and subsequently challenged.

The legal challenge was reported on elsewhere at the time. It essentially failed as the Judge found that the Council had set a robust methodology for calculating fares, had gone to great lengths to consult with the trade about the data and running costs to be inputted into the formula, and despite sending over 260 consultations, received less than a handful of partially completed replies. Judge, John Howell QC, said in his judgement that: *'operators of hackney carriages in Guildford have only themselves to blame for not submitting sufficient reliable evidence on such costs in the two consultations that the Borough Council conducted.'*
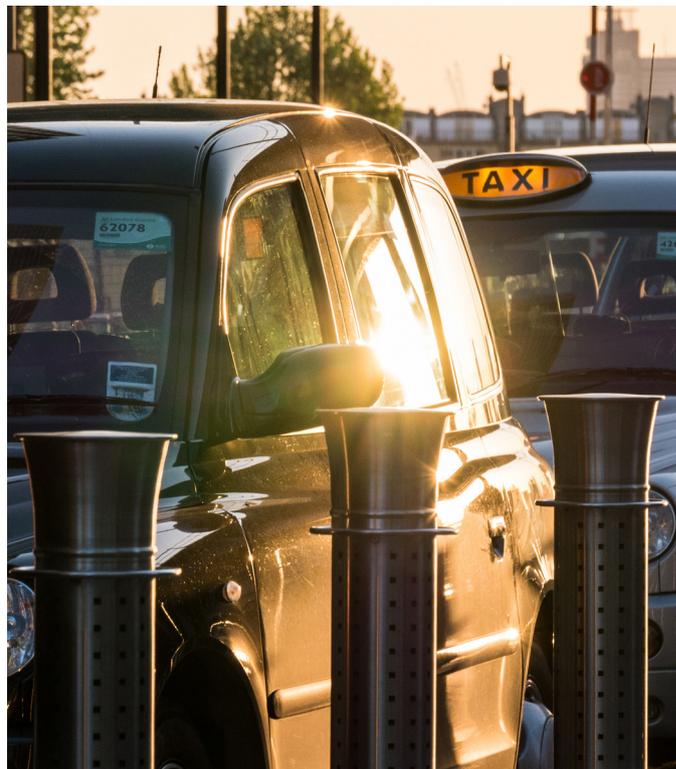
The Guildford Fare Calculator

The Guildford Fare Calculator was approved by the Council's Executive in 2013 and subsequently reviewed in 2016. It takes into account the costs of running a licensed vehicle together with average salaries in Guildford, and enables fares to be calculated at a rate which will allow drivers to cover costs and earn the Guildford average salary over time (based on the average vehicle mileage).

This procedure sets out the process used for calculating taxi fares and other charges, which includes a methodology (a process that sets out relevant cost factors); calculator (an excel spreadsheet containing the formula for calculating the fares), and table of fares (setting out the maximum permitted charges for each journey).

The procedure also sets out the factors used when calculating the costs associated with operating a taxi in Guildford. The values of these may change each year and are reviewed accordingly as set out in Guildford's fare setting procedure, or sooner if deemed appropriate.

Conclusion

Guildford's formula for fare setting has stood the tests of legal challenge and time. It provides the means of setting and reviewing fares in a structured, transparent and methodical way. The formula will work equally well for other areas and a more consistent approach would benefit all parties. This article sets out the detailed explanation of a methodology which is easily computed in its spreadsheet format. Guildford's spreadsheet could easily provide a universal formula with inputted values being adjusted for local circumstances and information to calculate fares.

Guildford Taxi Fares Calculator

ITEM	Average Running Costs per Vehicle		Flag Drop	ITEM	Enter Values in the Pink Boxes	
1	**Average Annual Salary** Equals Item **A**	Item 1	T1 3.00	A	Average Annual Salary	Item A
2	**Average Running Costs** Items (**B** x **E**) + (**C** + **D** + **G** + **H** + **I**)	Item 2	T2 3.50	B	Costs of Running Diesel Car (per mile)	Item B
3	**Total Running Costs** Item **1** + Item **2**	Item 3	T3 6.00	C	Additional Allowance for Insurance	Item C
4	**Average Live Mileage** (Item **E** – Item **F**)	Item 4	T4 4.00	D	Annual Cost of Hackney Carriage Licence	Item D
5	**Cost per mile** (Item **3** ÷ Item **4**)	Item 5		E	Annual Average Mileage	Item E
6	**Total Charge per Mile** Item **3** – (Item **K** x Item **T1**) ÷ Item **4**	Item 6(a) Item 6(b)		F	Dead Mileage Item F1 %	Item F2
	Charge for each distance unit is Tariff 1 Tariff 2			G	Annual Station Rank Fee	Item G
7	Item **L** Yards =	Item 7(a) pence Item 7(b)		H	Additional Cost of driver's licence (pro-rata)	Item H
	(Item **6** ÷ Units per mile)			I	**Additional Policy Costs**	Item I
8	Charge for time per unit	Item 8(a) Seconds Item 8(b)		J	Typical Journey Distance (miles)	Item J
9	Each passenger in excess of one	Item 9		K	Average number of journeys	Item K
10	Soiling Charge	Item 10		L	Distance Unit = Unit Charge X (1760/charge per mile) Item L Yards	
				M	Units per mile (1760 / Unit Distance)	Item M
				N	Charge per unit	Item N Pence

GUILDFORD BOROUGH HACKNEY CARRIAGE FARE CHART effective (Date TBC)
FARES FOR DISTANCE & TIME

All distance and time charges include uncompleted parts thereof.

Tariff 1: DAYTIME RATES: (except where rates 2 or 3 apply)		Tariff 2: NIGHT AND HOLIDAY RATE:		Tariff 3: DOUBLE DAYTIME RATE:	4. EXTRA CHARGES:	
Rate per Mile: Item 6(a) after first mile		Rate per Mile: Item 6(b) after first mile		Rate per Mile: Double Item 6(a) after first mile		
HIRINGS BETWEEN 7am and 11pm		HIRINGS BETWEEN 11PM AND 7AM AND NATIONAL PUBLIC HOLIDAYS (except where Double Day Rate applies)		HIRINGS BETWEEN:		
£ Item T1 (Mon – Sat) £ Item T4 (Sun)	Maximum charge up to Item L yards or Item 8(a) seconds	£ Item T2 (Mon-Sun)	Maximum charge up to Item L yards or Item 8(a) seconds	1) 11pm on Christmas Eve and 5am on 27 December; and 2) 11pm on 31 December and 7am on 1 January	For each passenger in excess of One:	Item 9 pence
Item 7(a) pence	For each additional Item L yards or Item 8(a) seconds.	Item 7(b) pence	For each additional Item L yards or Item 8(a) seconds		Soiling the carriage leaving it unfit for immediate subs hiring:	£ Item 10

ALL LUGGAGE CARRIED INSIDE OR OUTSIDE THE PASSENGER COMPARTMENT IS FREE OF CHARGE.

IMPORTANT

If the journey takes the taxi outside the Guildford Borough area, the driver MUST still charge in accordance with the above scale unless he/she has agreed otherwise with the hirer before the journey has started. **These are the maximum fares chargeable.**

COMPLAINTS

Any complaints about a taxi or driver should be directed to: Licensing Team, Guildford Borough Council, Millmead House, Millmead, Guildford, Surrey. GU2 4BB or (01483) 505050 quoting, if possible, the taxi plate number and/or the driver's badge number.

Head of Health and Community Care Services, Guildford Borough Council

Methodology

Average Annual Salary (Item 1)
Using ONS data in its 'Annual Survey of Hours and Earning (ASHE), Guildford identify an appropriate level of remuneration for taxi drivers in the area.

Average Running Costs per vehicle (Item 2)
Working out the costs of running a taxi is not straightforward. Taxis come in many shapes and sizes, with different makes, models and specifications of vehicles, different age and emission policies, different maintenance and testing standards, and regional variations between costs. As such, it impossible to cater for every variation.

Guildford began by using the Automobile Association (The AA) 'Running

Cost' values contained in the annual motoring costs report that are relevant to a new diesel vehicle within the £26,000 to £36,000 price bracket because the majority of licensed taxis use diesel fuel and fall within this price bracket when new.

The AA divides the cost of running a car into charges and costs as follows:

Standing charges:
- depreciation
- cost of capital
- annual cost of insurance
- cost of road tax
- cost of breakdown cover

The running costs:
- cost of fuel per litre
- cost of replacement tyres
- cost of replacement parts
- cost of parking and tolls

One of the main elements of the Judicial Review challenge in 2016 was that the AA data was out of date. The data used for the 2016 fares was the AA Running Costs 2014, published by the AA in July 2014. At the time using this data was not disadvantageous to the taxi trade as the ONS RPI Motoring Expenditure Costs Index had shown a sustained deflation of the cost of motoring between March 2014 to May 2016.

More recently AA has ceased producing its annual "Running Costs" data. Guildford's 2018 consultation with the trade proposed calculating fares using the previously approved 2014 Figures, adjusted for inflation using the ONS RPI Motoring Expenditure Costs Index.

Additional Running Costs
Guildford use the following variable annual costs associated with operating a taxi in Guildford:

- vehicle insurance (Item C)
- annual vehicle licence and test fees. (Item D)
- the cost of the annual Guildford Railway Station Taxi Rank permit. (Item G)
- annual driver's licence fee (pro rata). (Item H)
- policy costs, including livery, roof signs, meter, card terminals (Item I)

Average Live Mileage (Item 4)
Live mileage is the number of miles travelled by a taxi with a fare-paying passenger. Live mileage is calculated by subtracting the dead mileage from the total mileage.

Average Annual Mileage (Item E)
Guildford uses the average annual number of miles travelled by each taxi driver when calculating cost per mile. The average annual mileage is derived from the mileage of each taxi (recorded during vehicle tests) and publicly available MOT mileage information. The mileage is divided between all licensed drivers within the borough to provide the average annual mileage. This accounts for drivers sharing vehicles.

Dead Mileage (Items F1 and F2)
Dead mileage is miles travelled by a taxi without a fare paying passenger.

A number of factors prevent an exact calculation of dead mileage. If a taxi takes a customer from (A) to (B) and always returns empty to (A), the dead mileage will always be half of the total mileage. The factors are:
- taxis do not always return empty to the point of initial departure
- taxis may travel with a customer from point A to point B and then onto point (C) avoiding any dead mileage
- taxis may be flagged down when empty
- pre-bookings can reduce the amount of dead mileage for example from Point A to the taxi rank and then from the taxi rank to point B
- taxis drivers use the vehicle travelling to and from work
- some drivers use their taxi for personal journeys

Note that HMRC state that any travel to and from the taxi drivers place of work is not deemed to be dead mileage for the purposes of calculating tax liability.

Dead mileage is expressed as a percentage (item F1) of the overall mileage (item F2), set at 45% following consultation with drivers which showed dead mileage to be between 33-55%.

Typical Journey Distance (Item J)
Information obtained through consultation with the taxi trade shows that each licensed taxi typically travels a distance of 2 to 3 miles per journey. Guildford use the mean value of 2.5 miles for the typical distance travelled for each journey.

Average Number of Journeys (Item K)
Calculated by dividing the average live mileage by the average distance per journey.

Total Cost per Mile (Item B)
The total cost per mile is calculated by dividing the total of the standing charges and running costs by the average annual mileage.

Calculation of the Fare Charged per Mile

The taxi fare calculator is used to determine the charge for each distance unit.

Total Cost per Mile (Item 5)
Guildford use the values of each factor set out above to calculate the cost per mile of running a taxi as set out below:

Average Running Cost (Item 2) = Running Cost per mile (Item B) x Average Annual Mileage (Item E) + Items C, D, G, H and I

Total Running Costs (Item 3) = Annual Salary (Item 1) + Average Running Costs (Item 2)

Cost per mile (Item 5) = Total Running Costs (Item 3) Average Live Mileage (Item 4)

Total Charge per Mile (Items 6(a) and 6(b))
Total Charges per mile are the crux of fares and calculated as shown:

(Item 3) – (Average number of Journeys (Item K) x the 'flag drop' (Items T1, T2, T3 and T4)) Average live mileage (Item 4).

However as fares will always include a fixed initial cost (flag drop) it is important to note that the formula used to establish the charge per mile is structured to prevent the flag drop from artificially exaggerating the cost per mile.

The Unit Charge (Items N, 7(a) and 7(b))
The unit charge is the cost to travel each distance unit or part of each unit. It can be any value as long as it is a multiple of 10 pence.

Calculation of the Distance Unit (Item L)
The distance unit is the number of yards travelled for each unit charge. We identify the distance unit as on the fare calculator.

The distance unit is calculated by dividing 1760 yards (1 mile) by the total charge per mile (Item 6) and then multiplying by the unit charge (Item N).

Calculation of Distance Units per Mile (Item M)
Calculated by dividing 1760 (1 mile) by the unit distance.

Calculation of Charge by Time per Unit (Items 8(a) and 8(b))
Calculated by dividing 5 minutes and 10 seconds by the number of units per mile (Item M).

The Table of Fares (T1 to T4 and 8(b))

Flag Drop
The 'flag drop' is the fixed cost that can be charged for an initial distance. It is universal in its application and is included in the cost of all journeys. It offers the taxi driver a minimum return for every journey encouraging the supply of journeys that cover a short distance. In the absence of a flag drop, all journeys would start at zero.

Extra Passengers (Item 9)
In addition to the charge per mile, Guildford allow an extra charge for each passenger carried in excess of one, based on current practice and local circumstances. This assists drivers of larger vehicles with a lower fuel economy.

Soiling Charges (Item 10)
This charge allows drivers to recover costs where passengers have soiled the vehicle, and is set to reflect current costs.