

METHOD FOR CALCULATING HACKNEY CARRIAGE FARES

The formula is used as an indicator in setting hackney carriage fares by producing a fare per mile figure which, if used to set the fares, theoretically gives a driver annual earnings equivalent to the national average.

The formula uses the most recently published AA motoring costs and the Office of National Statistics average regional earnings figures to produce a 'fare per mile' figure representing the actual cost per mile when carrying fare paying passengers that a driver needs to recover to give him/her average earnings based on covering 30,000 working mile per year. The detailed methodology is set out below:

THE FORMULA

$$\frac{\text{average earnings} + \text{average taxi running costs}}{\text{average fare paying miles}} = \text{fare per mile}$$

Where the figures come from:

average earnings: this figure represents the average full time regional annual earnings taken from the most recently published figures from the Office of National Statistics (*Annual Survey of Hours and Earnings – Median Gross Weekly Earnings by Government Office Region – North East – expressed as annual earnings*)

average taxi running costs: this figure represents the total annual cost, excluding driver earnings, to run a taxi. The figure is calculated in two stages.

Firstly, a figure is taken from the most recently published AA table of motoring costs and assumes a petrol driven vehicle valued at between £13000 and £20000, and covering 30000 miles per year. The table provides a cost per mile figure which is then multiplied by 30000 (equivalent to the assumed average annual working mileage of a taxi) to produce an average annual cost for a private vehicle.

Secondly, to ensure that the final figure more accurately reflects taxi running costs a 'supplement' is added to take account of the higher insurance premiums taxi drivers usually have to pay. This supplement is an approximation arrived at by contacting a number

of local insurance brokers specialising in taxi insurance for an 'average' taxi insurance premium (In future years this figure will be adjusted to reflect the national average percentage change in taxi insurance premiums). The insurance element used in the AA calculation is then deducted from this figure to give the supplement.

The two figures are then added to give the final annual figure of average taxi running costs.

average fare paying miles: The figure used is 15000 miles. This assumes a taxi covers 30000 working miles per year of which 50% or 15000 miles are covered actually carrying fare paying passengers.

fare per mile: The fare per mile figure is reached using the formula on page 1. The figure represents the actual average fare (expressed per mile) which would need to be charged to give a driver covering 30000 working miles per year earnings equivalent to the UK national average.

APPLYING THE 'FARE PER MILE' FIGURE

Normally, North Tyneside Hackney Carriage Association will periodically submit a proposal for variation of the table of hackney carriage fares to coincide with the council's annual review of fares. The fare per mile figure cannot readily be compared with any such proposal and therefore the following method of comparison is used:

From the proposal, the actual fare for a three mile journey is calculated at the Tariff 1 rate and also at the Tariff 2 rate. Three miles is chosen as it approximately represents the average taxi journey length in the UK. The two figures are then used to calculate an average fare per mile figure by adding the two rates and dividing by six. The new figure takes into account daytime and night time working.

The fare per mile figure produced by the formula is then compared with the fare per mile figure produced from the proposed fare table. Provided that the proposal figure does not exceed the formula produced figure, the proposal will be presented to committee with a recommendation to approve the proposed variation.

FARE PER MILE CALCULATION USING THE FORMULA:

Average annual regional earnings: £24,128

Average annual vehicle running costs: £9630
(for 30,000 miles at 31.12p per mile plus £294 costs)

Additional vehicle insurance
(£3087 - £409) £2678

Total **£36436**

Fare per mile $\frac{36436}{15000}$ = **£2.43**
(for 50% working mileage)

FARE PER MILE EQUIVALENT OF THE PROPOSED TARIFF INCREASE:

A - Fare for a three mile journey Tariff 1 £7.60

B- Fare for a three mile journey Tariff 2 £9.80

Average fare per mile $\frac{A + B}{6}$ **£2.90**