

# **The regulation of licensed taxi and PHV services in the UK**

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# 1 SUMMARY AND CONCLUSIONS

## Introduction

- 1.1 This market study has looked at the regulatory framework affecting licensed taxis and private hire vehicles (PHVs).

## Background

- 1.2 There are two types of vehicle that operate in this market:
- licensed taxis can ply for hire on the streets or at ranks and can also be pre-booked, generally over the telephone
  - PHVs, on the other hand, cannot ply for hire but can only be pre-booked.
- 1.3 The licensed taxi and PHV services market in the UK is large and growing with an annual turnover of at least £2.2 billion.<sup>1</sup> Turnover has risen 43 per cent in real terms since 1994, although it has fallen slightly in the last couple of years.
- 1.4 Taxis provide an important service for the public generally and especially those on lower incomes who are most reliant on them. On average, people in the lowest 20 per cent of incomes use taxis and PHVs 40 per cent more often than those in the highest 20 per cent. Adults living in households without a car made 30 trips a year on average compared with nine for those in households with a car.<sup>2</sup>

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<sup>1</sup> National Statistics, *Consumer Trends, Quarter 1 2003*. This is the expenditure of UK households in 2002. Spending on taxis by business and tourists are excluded. This figure is therefore an under-estimate of the true size of the UK taxi and PHV market.

<sup>2</sup> Department for Transport: Travel by taxi and PHV in GB, January 2003. All the figures refer to the years 1999-2001.

- 1.5 Approximately 8.6 million people in the UK are disabled, and it is estimated that five per cent of these use a wheelchair at least some of the time.<sup>3</sup> Taxis and PHVs are used more frequently by disabled people (67 per cent more) than non disabled people.<sup>4</sup> The same survey also concluded that disabled people find taxis and PHVs the easiest mode of transport to use because of their flexibility.

## The regulatory framework

- 1.6 The licensed taxi and PHV market is highly regulated. The regulations are generally applied by local licensing authorities (LAs). The application of the regulations varies from area to area but falls into three broad categories:

- **quantity regulation** – LAs can limit the supply of taxis by imposing a cap on the number of licences for taxi vehicles. Some LAs do this; others do not. These regulations do not apply to PHVs
- **quality and safety regulation** – LAs also regulate quality in terms of service, safety and technical efficiency, both for taxis and for PHVs
- **fare regulation** – LAs can regulate the fares charged by taxis by specifying either a mandatory or a maximum fare. Again, these regulations do not apply to PHVs.

## Summary of findings

- 1.7 In summary, we have concluded that the overall quality of taxi services could be enhanced by reforming elements of the regulatory framework. While some aspects of regulation are entirely sound, other aspects can be **improved**, and in particular quantity regulation should be **removed**.

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<sup>3</sup> Grundy, E., Ahlburg, D., Ali, M., Breeze, E. and Sloggett, A. (1999), Disability in Great Britain: Results from the 1996/97 Disability Follow-Up to the Family Resources Survey, DSS Research Report 94 and the Employers Forum on Disability. The figure for the number of disabled people in the UK represents those aged 16 – 75 in Great Britain and is based on a definition of disability derived from the World Health Organisation: 'the inability, due to impairment, to perform activities in typical and personally desired ways in society'. The 8.6 million figure roughly equates to those who would be covered by the Disability Discrimination Act 1995. The five per cent figure is commonly used by disability commentators although there is no reliable data on UK wheelchair users.

<sup>4</sup> Attitudes of Disabled People to Public Transport, MORI 2002, undertaken for the Disabled Persons Transport Advisory Committee.

- **quantity regulation** – limiting the number of taxis reduces availability and lowers the quality of service to the public. These restrictions should therefore be lifted
- **quality and safety regulation** – there are compelling reasons to regulate to safeguard driver and vehicle standards. But there are questions about whether quality regulation always achieves its goals proportionately
- **fare regulation** – there are sound reasons to regulate taxi fares, for example, to protect consumers in vulnerable situations. But there could be greater freedom for beneficial price competition below regulated fare caps.

### **The benefits to consumers**

1.8 Acting on our recommendations will benefit consumers by:

- putting more taxis on the road – removing quantity restrictions could increase the number of taxis in affected areas by 30 per cent
- making journeys safer – removing quantity restrictions and increasing the number of licensed taxis will reduce the need for illegal taxis where neither the driver or vehicle have been subject to appropriate quality and safety checks. Last year around 1.8 million people used an illegal taxi, exposing themselves to potentially serious safety risks
- reducing passenger waiting times – removing quantity restrictions will save an overall 2.5 million hours across the UK
- creating more choice – removing quantity restrictions could put an extra 15,000 taxis on the road. This will substantially increase peoples' choice of transport modes when deciding how to reach their destination
- promoting best practice in LAs' application of quality and safety controls to ensure the needs of local people are met and that individuals and businesses are not deterred from supplying taxi services
- protecting people in vulnerable situations from overcharging, while encouraging the benefits of fare competition.

## Quantity regulation

- 1.9 Forty-five per cent of UK LAs restrict the number of taxi vehicle licences granted. This represents 52 per cent of all licensed taxis in the UK outside London. The majority of LAs applying quantity controls are urban (72 per cent of urban LAs have quantity controls while only 18 per cent of rural authorities do so).
- 1.10 LAs without quantity controls have on average 30 per cent more taxis per head of population than those that do not. This is true for both urban and rural LAs.
- 1.11 Because a large number of LAs control taxi numbers and a large number do not, there is rich evidence to compare the experience of the public in each situation. From our analysis of the evidence we have concluded that these quantity controls are detrimental to consumers. They mean that consumers have limited access to services they desire, and the regulations also impede potential new entrants wanting to set up a taxi business.
- 1.12 Consumers suffer through:
- **reduced availability of taxis** - quantity controls, on average, reduce the number of taxi vehicles by about 25 per cent and in some cases by much more than that. For example, since removing quantity controls Sheffield now has 52 per cent more taxis
  - **increased waiting times** - quantity controls increase the amount of time that people have to wait for a taxi. Overall, our research shows that restricting quantities increases average waiting times. At certain times of day, such as peak times, waiting times increase on average 10 per cent
  - **reduced choice** – the lower availability of taxis in LAs with quantity controls reduces transport options for consumers. These consumers use other forms of transport to make their journey
  - **reduced safety** – a shortage of licensed taxis on the streets, especially during the evening, encourages the use of illegal taxis, potentially exposing consumers to serious safety threats.<sup>5</sup> This is a significant

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<sup>5</sup> In our survey people were asked if they had used an illegal taxi in the last year. An illegal taxi is a totally unlicensed vehicle.

problem. We estimate that approximately 1.8 million people have taken an illegal taxi at least once in the past 12 months.<sup>6</sup> Limited supply of taxis can also contribute to difficulties faced by the police in clearing city centres or public places in the evenings.

1.13 Quantity regulations also restrict those wanting to set up a taxi business from entering the market to meet the demands of consumers. They do this by:

- **creating a premium on taxi licences** – in areas where licences are limited in number they have themselves become valuable commodities typically ranging from £12,000 to £50,000. This creates a sizeable entry barrier
- **delaying market entry** – areas with quantity controls have a waiting list for people wanting to set up taxi businesses. In some areas the number of people on the waiting list exceeds the number of licences already in circulation, indicating that there are more people wanting to enter the market than are currently serving it.

1.14 Overall therefore these quantity restrictions serve neither consumers nor potential entrants. There is no clear rationale for maintaining these regulations.<sup>7</sup> We have nonetheless explored potential rationales which have been put forward to justify the regulation, and found none to be convincing.

1.15 The main arguments which could be offered in favour of quantity controls are:

- that there is no excess demand for taxis. **We reject this as our research shows that demand is there but is not being met**
- that they ensure the quality and safety of the fleet in terms of vehicles and drivers. **We believe that effective quality regulation, rather than restricting taxi numbers, is the reliable way to ensure this**

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<sup>6</sup> TNS: Taxis and PHV Omnibus Consumer Survey 2003 (annexe K). Our survey recorded that 57 per cent of adults use taxis each year and seven per cent of them had used an illegal taxi in the last year. The total number of adults who have used an illegal taxi is therefore 0.57 multiplied by 45,435,000 (the number of adults in the UK) multiplied by 0.07 = 1.8 million.

<sup>7</sup> The origins of quantity controls date back to Royal Proclamations by Charles I in the 1630s. Controls were introduced in London following complaints about hackney carriages causing street congestion and petitions by the Company of Watermen who feared that this new form of hired transport would deprive them of their livelihoods.

- that they ensure a supply of taxis outside peak times. **We reject this as our study shows that when quantity controls are removed taxi supply increases across all times of day, and**
- that they can be used by LAs to control congestion and pollution levels and encourage public transport use. **Our view is that applying quantity controls will not achieve these aims and that there are more effective ways of meeting these goals.**

1.16 **We therefore recommend that the legislative provisions allowing licensing authorities to impose quantity controls should be repealed. In the meantime, we recommend that LAs with quantity controls remove them.**

### **Quality and safety regulation**

1.17 All LAs that license taxis and PHVs apply quality and safety controls. These cover:

- **vehicles** – regulations can specify the type of vehicle (it may have to be wheelchair accessible); age limits on vehicles (a maximum age is stipulated in 45 per cent of LAs – the average limit is nine years); vehicle testing at regular intervals (this is required in 90 per cent of LAs, mostly six monthly); vehicle identification (mainly relating to the provision of a roof sign); fitting of taximeters (this is required in 93 per cent of LAs); specification of minimum engine size (this occurs in 48 per cent of authorities).<sup>8</sup> Twenty-five per cent of LAs apply the same quality conditions to PHVs although, for the majority, vehicle conditions are less onerous than for taxis and mainly concern the basic characteristics of the vehicle and its roadworthiness
- **drivers** – regulations can include a criminal record check (required by all LAs); a medical examination (this is required by 95 per cent of LAs); a geographical knowledge test (this is required by 60 per cent of authorities, although they vary greatly in scope); minimum driver age limits (56 per cent of LAs require drivers to be 21 or over). There are fewer differences between licence conditions for taxi and PHV drivers and around 56 per cent of LAs operate a dual licensing scheme, covering both

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<sup>8</sup> OFT Survey of Licensing Authorities 2002 (annexe B).

- **operators** – for PHV operators only. Generally this only involves a criminal record check though other conditions can be attached (e.g. on the type of premises used).
- 1.18 We believe that there is a strong case for regulating quality and safety both for taxis and PHVs. First, consumers cannot judge certain standards such as the safety of the vehicle and the competence of the driver when getting into a taxi or PHV. These regulations therefore provide essential protection for consumers. Secondly, taxi services can have a role to play in broader social welfare policy such as ensuring greater accessibility or environmental improvements and LAs should consequently be able to apply quality and safety regulations to suit their needs.
- 1.19 Nonetheless, it is important that these regulations are applied in a proportionate manner. Our analysis has highlighted substantial variation across LAs. An example of this is the application by some LAs of the Metropolitan Conditions of Fitness (MCF) which set out detailed specifications for taxi vehicles such as a maximum turning circle, a maximum step height and wheelchair accessibility to certain specifications. These were written expressly to meet the needs of London but have been adopted by other LAs so that they cover 44 per cent of taxi vehicles in the UK. Only certain models of vehicle currently meet these requirements. These are significantly more expensive than the saloon cars and wheelchair accessible vehicles allowed by many LAs. There is a danger that the additional cost of MCF compliant vehicles may raise prices and deter entry to the market thus limiting supply and leading to a poorer service for consumers.
- 1.20 We believe that local quality and safety regulation should match local requirements and think that LAs, when deciding on quality specifications for vehicles, should consider the needs of consumers and the effect of the proposed specifications on the availability of taxis and PHVs. LAs should try to ensure that any quality and safety specifications set do not go beyond what is required to achieve this policy aim.
- 1.21 **We therefore recommend that the Department for Transport promote and disseminate local best practice in applying quality and safety regulations involving the Scottish Executive and the Department of the Environment (NI) in this process. The purpose of this would be to assist LAs to apply standard quality and safety attributes in a proportionate manner.**
- 1.22 In applying quality and safety regulation LAs should carefully consider the needs of disabled consumers. Part V of the Disability Discrimination Act

1995 (DDA95), which has yet to be implemented, is intended to help ensure that disabled people, including those who wish to remain in their wheelchairs, can get into and out of, and travel in, licensed taxis in safety and reasonable comfort. The Department for Transport (DfT) has recently announced its proposals and timetable for implementing the taxi accessibility requirements in Part V DDA95.<sup>9</sup> Prior to implementation, the power to regulate taxis and PHVs in a way that meets the needs of disabled passengers remains with LAs. Our research has shown large differences in the way LAs address disability issues with regard to taxis. A minority of LAs require their taxis to be wheelchair accessible and an even smaller number require taxi drivers to undergo disability awareness training.

- 1.23 Those LAs which have required vehicles to be wheelchair accessible have primarily followed the specifications laid down by the MCF. These vehicles, however, are not necessarily the most accessible for those with impaired mobility who do not use a wheelchair.
- 1.24 In setting quality and safety controls LAs should closely consult with disability groups to ensure their needs are correctly recognised.
- 1.25 We also note that if quantity restrictions apply to vehicles suitable for disabled passengers, those restrictions may be particularly detrimental to disabled groups.

## **Fare regulation**

- 1.26 Approximately 95 per cent of LAs regulate fares for taxis.<sup>10</sup> The extent of regulation varies across the country. In England and Wales, according to case law, fares set by LAs are maximum fares. The exception to this is London where a mandatory tariff is set.<sup>11</sup> In Scotland too the fares fixed under legislation are maximum rates. In Northern Ireland the LA has the power to set both maximum and minimum fares, although in practice these are set at the same level, creating a mandatory tariff.

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<sup>9</sup> These regulations will not apply to PHVs.

<sup>10</sup> The five per cent that do not are rural or semi rural with most of the work coming from telephone bookings.

<sup>11</sup> Although taxis are allowed to depart from this tariff on occasion, for example if a passenger has had their money stolen. This judgement must be made on a case by case basis. There is no blanket discretion.

- 1.27 There is a strong case for regulating the maximum level of fares for taxis in order to protect the interests of consumers. The way that taxi services are purchased on the street or at ranks can put consumers in a weak position, and setting maximum fare levels is justified in order:
- **to address a lack of price competition** – when hiring from ranks or on the street consumers cannot shop around for the best price. They are unlikely to turn down a taxi because it is too expensive as they face uncertainty over how long they must wait for the next taxi to pass and how much it will cost when it arrives
  - **to protect vulnerable consumers** – certain consumers are likely to be in a particularly weak bargaining position when they hire a taxi on the street or at a rank rather than pre-booking a taxi or PHV. For example, disabled passengers may be less able to take alternative forms of transport, and tourists may not be sufficiently well informed, or have the necessary linguistic skill, to negotiate the fare.
- 1.28 We have balanced these arguments against the costs of regulation; in particular the potential difficulties in setting fares at the correct levels, and the inflexibility created by regulation, but have concluded that there remains a good case for retaining these regulations.
- 1.29 We note, however, that the rationale for fare regulation for taxis points to fare caps – i.e. fixed fares being the maximum that can be charged.
- 1.30 **We recommend that throughout the UK LAs should only set fare tariffs which represent the maximum that can be charged, and not set fixed or minimum fares. It should be made clear to consumers that they are able to negotiate on fares, for example, when ordering a taxi over the telephone. We also recommend that, where possible, LAs actively facilitate more price competition in the market, particularly in the rank and hail sectors of the market.**

## 2 INTRODUCTION

### Introduction

- 2.1 This market study, which was launched on 21 August 2002, has been carried out under section 2 of the Fair Trading Act 1973 and, since they came into force this year, similar duties contained in the Enterprise Act 2002. The study was undertaken as part of our remit to look at regulations and their impact on a particular market and whether any changes should be recommended.
- 2.2 We looked at:
- the nature and structure of the taxi and PHV market
  - the regulatory framework and the impact the existing regulations have on the market for taxis and PHVs, and
  - the effectiveness of competition in the market.
- 2.3 In carrying out this study we:
- consulted key stakeholders within the taxi and PHV market including taxi driver groups and manufacturers of taxi vehicles
  - consulted with groups representing users of taxi services including consumer groups, disability groups and groups representing older people
  - consulted with the Department for Transport, the devolved administrations, licensing authorities including the Public Carriage Office, and the Local Government Association
  - carried out surveys of licensing authorities and consumers, and
  - commissioned research into the impact of taxi licensing regulations at local authority level together with an international study looking at taxi licensing in other countries.
- 2.4 Throughout this report reference is made to 'taxis' and 'PHVs' – private hire vehicles. By taxis we mean vehicles that are licensed to ply for hire on the street or at ranks and can also be booked in advance. PHVs must be pre-booked and cannot ply for hire. While our original remit was to look at the regulations applying to taxis we broadened the terms of reference of our study to include PHVs due to the interrelated nature of the services provided (for example, some firms provide both taxi and PHV services).

- 2.5 The following chapters provide background to the UK taxi and PHV market, outline the evidence and the market problems we found and propose remedies where we think they are appropriate. At the end of this volume we have included a glossary and list of acronyms, together with our bibliography and references.
- 2.6 Details of our methodology, research and relevant legislation can be found in the annexes to this report. The studies we commissioned are the responsibility of the authors concerned and any views expressed in them are those of the authors and not necessarily of the OFT. The views of the OFT are expressed in this report, which has been written with the benefit of having seen these studies.

### 3 THE UK TAXI AND PHV SERVICES MARKET

#### Introduction

- 3.1 This chapter explains the UK taxi and PHV services market to provide background to our study. Section 1 sets out the scope of our study, section 2 looks at the market and section 3 looks at the existing legal framework for taxis and PHVs. Chapters 4 to 7 look more closely at the impact of particular categories of licensing legislation on the UK market for taxi and PHV services.

#### Section 1: the scope of our study

- 3.2 The taxi and PHV services market in the UK is large and growing with an annual turnover of at least £2.2 billion.<sup>12</sup> Turnover has risen 43 per cent in real terms since 1994, although turnover has fallen slightly in the last couple of years. Almost 60 per cent of people use a taxi or PHV at least once a year. We make, on average, 12 trips per person per year. Taxi and PHV use is also greatest amongst people in low income groups. Those with incomes in the lowest 20 per cent make around 50 per cent more trips than across the population as a whole.<sup>13</sup>
- 3.3 This study looks at taxis and PHVs and the regulations surrounding them. We have considered both taxis and PHVs because the two offer comparable services.
- 3.4 Taxis and PHVs are vehicles that can be licensed to carry a maximum of eight passengers. We have not considered the regulations relating to buses, referred to in legislation<sup>14</sup> as ‘public service vehicles’.<sup>15</sup> These fall into a separate regulatory regime which is outside the remit of our study.
- 3.5 In our research we have looked at how the regulations governing taxis and PHVs within LAs across the UK affect the supply of taxi services to consumers. Our intention throughout has been to review the existing

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<sup>12</sup> National Statistics, *Consumer Trends, Quarter 1 2003*. This is the expenditure of UK households in 2002. Spending on taxis by business and tourists are excluded. This figure is therefore an under-estimate of the true size of the UK taxi and PHV services market.

<sup>13</sup> Department for Transport: Travel by taxi and PHV in GB, January 2003. All the figures refer to the years 1999-2001.

<sup>14</sup> The Public Passengers Vehicles Act 1981.

<sup>15</sup> These are distinct from public service vehicles (PSVs) as defined by legislation in Northern Ireland. In Northern Ireland PSVs include taxis which are within the scope of our study.

regulatory structure, with our focus being on the benefits and burdens that regulation can create – in this case for LAs, the industry and consumers. Where burdens have been imposed, we have examined them to see what impact they have on the operation of the market. Our aim has been to establish whether or not the regulations give rise to an unnecessarily detrimental impact on competition and consumers.

## Section 2: market overview

### Taxi and PHV usage

- 3.6 Taxis and PHVs are the fastest growing transport sector in the UK. The use of taxis and PHVs in the UK has increased by over 350 per cent in the last 25 years. The average person now travels 61 miles by taxi or PHV each year.<sup>16</sup> Private car usage has increased by 61 per cent over the same 25 year period. There has been a more modest increase in rail travel and a fall in the distance travelled by local bus.
- 3.7 Table 3.1 shows taxi and PHV journeys per year broken down by age and sex. As can be seen, between 1999 and 2001, taxi and PHV use averaged 12 trips per person. Around 60 per cent of people reported using a taxi or a PHV at least once a year. Women use taxi and PHV services marginally more than men: 11 per cent of men and 13 per cent of women said they used a taxi or PHV at least once a week.

TABLE 3.1: AVERAGE TAXI AND PHV JOURNEYS PER YEAR BY AGE AND SEX: 1999/2001

	< 16	16-20	21-29	30-59	60-69	70+	All ages
<b>Male</b>	6	19	19	10	6	7	10
<b>Female</b>	6	36	29	13	7	16	14
<b>All</b>	6	28	24	12	7	12	12

Source: Department for Transport, Travel by taxi and PHV in GB, January 2003

<sup>16</sup> Department for Transport: Travel by taxi and PHV in GB, January 2003.

- 3.8 People in low income groups make most trips. On average, people in the lowest 20 per cent of incomes make 17 trips by taxi or PHV a year compared with 12 in the highest 20 per cent. Adults living in households without a car made 30 trips a year on average compared with nine for those in households with a car.
- 3.9 Taxi and PHV services are used mainly on the weekend with 18 per cent of trips on Fridays, 21 per cent on Saturdays and 13 per cent on Sundays. Patterns of use vary by the day of the week. Weekdays have peaks of trips starting from eight to nine a.m. (six per cent of the day's trips), trips starting from three to four p.m. (eight per cent) and trips starting from 11 p.m. to midnight (eight per cent).<sup>17</sup>

### **Spending on taxi and PHV services**

- 3.10 Expenditure on taxi and PHV services by households in the UK was £2.2 billion in 2002.<sup>18</sup> Spending increased rapidly in the late 90s (by as much as 18 per cent in 1997) but has fallen in the last two years. The 2002 figure remains 43 per cent higher in real terms than that recorded in 1994.
- 3.11 Expenditure was greatest in London (almost 70 per cent higher per household than the UK as whole).<sup>19</sup> The other areas with above-average expenditure are generally in the UK regions with the lowest household incomes. Households in the North West, North East, Northern Ireland and Scotland all spend more than the UK average on taxis and PHVs.

### **The taxi and PHV services market**

- 3.12 Taxis are allowed to ply for hire on the street or at ranks and to make pre-booked journeys. PHVs can only be pre-booked (usually by telephone). Around 30 per cent of all journeys are from a rank, 10 per cent are hailed on the street and 60 per cent are pre-booked.<sup>20</sup> Unfortunately, this data source does not separate taxi and PHV journeys in the telephone segment of the market but the figures for rank and hail

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<sup>17</sup> Department for Transport: Travel by taxi and PHV in GB, January 2003.

<sup>18</sup> National Statistics, *Consumer Trends, Quarter 1 2003*. This is the expenditure of UK households. Spending on taxis by business and tourists are excluded. This figure is therefore an under-estimate of the true size of the taxi and PHV market.

<sup>19</sup> National Statistics, *Family Spending, 2001-02*.

<sup>20</sup> Halcrow: Impact of Regulation on Taxi Markets – Consumer Survey, July 2003 (annexe A).

show that taxis account for at least 40 per cent of all journeys made by taxi and PHV.

- 3.13 There are around 75,500 licensed taxi vehicles in the UK with 20,700 in London alone.<sup>21</sup> There are almost twice as many licensed taxi drivers (146,100) as vehicles. The ratio of drivers to vehicles is considerably higher outside London. There are two main reasons why there are more drivers than taxis. First, in LAs that impose quantity restrictions not all licensed drivers can get a taxi vehicle licence and drivers will use taxis owned by other licence holders. The second reason is that drivers will often share the costs of running a taxi.
- 3.14 There are an estimated 105,000 PHVs, 18,000 private hire operators and 157,000 PHV drivers.<sup>22</sup> Again, shared use of vehicles or PHV operators renting vehicles to drivers accounts for the difference between numbers of drivers and vehicles.
- 3.15 The number of licensed taxi vehicles has increased roughly in line with the higher usage observed over time. In 2002, there were around 50 per cent more licensed taxi vehicles than there were ten years ago.<sup>23</sup>

### **Section 3: an overview of the current legal framework**

- 3.16 The UK taxi and PHV services market is highly regulated. Annexe A provides a detailed description of the legislation surrounding taxi and PHV licensing. The following is a brief overview of the relevant legislation and how it is applied.

#### **Geographical areas**

- 3.17 There are four distinct geographical areas for the licensing of taxis and PHVs in the UK: London; England and Wales outside London; Scotland; and Northern Ireland. All allow for the licensing of vehicles and drivers.
- 3.18 England (including London), Wales and Scotland operate a two tier licensing system. There is a legal distinction between a taxi and a PHV in

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<sup>21</sup> OFT: Statistical Analysis 2002 (annexe B).

<sup>22</sup> Note that PHVs in London are not yet fully licensed and this UK-wide figure is an estimate based on the ratio of drivers to vehicles outside London.

<sup>23</sup> Department for Transport: Taxi and Private Hire Vehicles in England and Wales, 2001 – 2002. The increase is a combination of increasing numbers of taxis in LAs without quantity controls, more LAs removing quantity controls and the limited release of licences in LAs with quantity controls.

these parts of the UK and both forms of vehicle are subject to a separate licensing regime. Taxis are licensed to 'ply for hire' whereas PHVs are not. This means that taxis can pick up passengers from the street or at a taxi rank and make a contract there and then to carry a passenger, whereas PHVs can only pick up passengers who have pre-arranged a journey by making a booking either by telephone or at an operator's office. Taxis may also accept pre-arranged bookings.

- 3.19 In Northern Ireland there is a single licensing regime that applies to all 'public service vehicles', which includes vehicles used for public and private hire and buses. However, there are two main types of vehicle licence in the taxi and private hire sector: a 'public hire taxi licence'<sup>24</sup> and a 'private hire taxi licence'. A 'public hire taxi' is permitted to ply for hire in the same way as a licensed taxi in the rest of the UK. A 'private hire taxi' offers the same services as a PHV in the rest of the UK. There are additional byelaws to allow conditions to be attached to public hire licences in the City of Belfast only.
- 3.20 In practice, the distinction between the two types of 'taxi' in Northern Ireland has the same effect as the distinction between taxis and PHVs in the rest of the UK. For simplicity, where appropriate, references to taxis in this report should be read as including Northern Irish public hire taxis and references to PHVs should be taken to include Northern Irish private hire taxis.

### Types of licence

- 3.21 For taxis there are two types of licence: a vehicle licence and a driver's licence. The vehicle licence is issued to the owner of the taxi, and in England and Wales outside London it can be transferred to a new owner on the sale or other transfer of the vehicle, as long as the new owner's name is registered with the LA<sup>25</sup>. In London, Scotland and Northern Ireland such transfer is not permitted save in exceptional circumstances,

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<sup>24</sup> There are two categories of public hire licence: one for operating within the City of Belfast (a Belfast Public Hire licence); and one for operating outside Belfast only (a Restricted Public Hire licence).

<sup>25</sup> This was established in the case of **Weymouth BC ex p. Teletax (Weymouth) Ltd** [1947] 1 All ER 779.

but vehicle licences still change hands by other mechanisms.<sup>26</sup> There is no separate requirement for an operator's licence to be held by the person that runs a taxi business. Furthermore, the owner of a taxi vehicle and the licensed driver can be separate people.

- 3.22 For PHVs, in England (including London) and Wales there are three types of licence: a vehicle licence, a driver's licence and an operator's licence. The operator is the person that accepts bookings and with whom the customer makes a contract for carriage. The actual services can be provided either by licensed PHV owners who are also licensed drivers or by licensed drivers who rent a licensed vehicle. Consequently the operator may be a different person from the driver.
- 3.23 In Scotland and Northern Ireland there are two kinds of PHV licence: a vehicle licence and a driver's licence. There is no requirement for a PHV operator's licence.

### **Levels of regulation**

- 3.24 In England and Wales outside London and in Scotland there are two levels of regulation: primary enabling legislation grants LAs licensing powers subject to certain conditions; LAs then set more detailed requirements in byelaws and/or licence conditions. In England outside London the LAs are district councils and unitary councils. In Wales they are county councils and county borough councils, and in Scotland they are councils. For simplicity this report refers throughout to LAs rather than to local authorities of a particular type.
- 3.25 In London, separate statutes contain the main provisions relating to taxis, and detailed licensing conditions are set out in London Cab Orders issued by Transport for London (TfL), which is the LA.<sup>27</sup> A PHV licensing regime was introduced in London in 1998.<sup>28</sup> Regulations under this Act have been put in place which set out detailed licensing conditions.
- 3.26 In Northern Ireland, the licensing regime is set out in Orders and Regulations that apply only in Northern Ireland. Licensing is carried out centrally by the Department of the Environment.

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<sup>26</sup> For example by using a company as the licence holder for the vehicle, or through negotiation with the LA.

<sup>27</sup> Transport for London is the integrated body responsible for London's transport system.

<sup>28</sup> By the Private Hire Vehicles (London) Act 1998.

## Categories of regulation

3.27 There are three broad categories of regulation applying to the UK market for taxi and PHV services: quantity regulation, quality and safety regulation and fare regulation.

### Quantity regulation

3.28 Quantity regulation applies to taxi vehicle licences. It does not apply to taxi driver's licences or to any of the three kinds of PHV licence. The application of quantity controls across the geographic areas in the UK is as follows:

- **England and Wales outside London** – LAs can, but do not have to, limit the number of taxi licences they issue.<sup>29</sup> Fifty-five per cent of LAs (accounting for 51 per cent of taxi vehicles) do not use quantity controls.<sup>30</sup> If an LA wishes to limit the number of taxis in its area, it must satisfy itself that there is 'no significant demand for the services of [taxis within its licensing area] which is unmet'.<sup>31</sup> To meet this requirement, those district councils that limit taxi numbers carry out 'unmet demand surveys'. The law does not place any requirements on LAs wishing to remove limits on taxi numbers – they are free to do so at any time.
- **London** – there is no quantity restriction of taxis as TfL does not have any express power to limit the number of taxi vehicle licences.
- **Scotland** – under primary legislation,<sup>32</sup> the grant of a taxi licence may be refused by a licensing authority for the purpose of limiting the number of taxis in respect of which licences are granted by them if, but only if, they are satisfied that there is no significant demand for taxis in their area which is unmet'.<sup>32</sup> Forty-six per cent of LAs (accounting for 35 per cent of taxi vehicles) do not restrict the

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<sup>29</sup> Under section 37 Town Police Clauses Act 1847 as amended by section 16 Transport Act 1985.

<sup>30</sup> OFT: Statistical Analysis 2002 (annexe B). This is a reduction from about 74 per cent in 1985. Goe, GA (1986), 'The taxi and hire care industry in GB in 1985', Transport and Road Research Laboratory Research Report 68.

<sup>31</sup> Section 37 Town Police Clauses Act 1847 as amended by section 16 Transport Act 1985.

<sup>32</sup> Under section 10(3) Civic Government (Scotland) Act 1982 as amended by the Transport Act 1985.

number of taxis in their area. These are predominantly rural authorities.

- **Northern Ireland** – there is no quantity regulation of taxis, as the Department of the Environment does not have the power to refuse taxi vehicle licences in order to restrict taxi numbers.

### **Quality and safety regulation**

3.29 Quality and safety regulation applies to drivers (both of taxis and PHVs), to vehicles (both taxis and PHVs) and to PHV operators.

3.30 For drivers:

- **England and Wales outside London** – LAs may only license taxi drivers<sup>33</sup> and PHV drivers<sup>34</sup> on condition that they are satisfied that applicants are ‘fit and proper’ and that they have held a valid driving licence for at least twelve months. LAs set their own conditions of ‘fitness’. These commonly include holding valid insurance, satisfying a criminal records check and any age and health requirements).
- **London** – TfL can (and does) prescribe conditions for the granting of taxi driver’s licences.<sup>35</sup> Applicants must satisfy TfL that they are ‘of good character and fit to act as a cab driver’.<sup>36</sup> TfL is in the process of introducing PHV licensing in London.<sup>37</sup> PHV driver licensing began in April 2003, but is in a transitional phase. TfL is required to grant a PHV driver’s licence if the applicant is over the age of 21, has held a driving licence for at least three years and ‘is a fit and proper person to hold a London PHV driver’s licence’;<sup>38</sup> TfL may set out further licensing conditions in administrative rules.
- **Scotland** – LAs can only grant taxi and PHV driver’s licences to applicants who have held a driving licence for at least 12 months, and may require applicants to submit to medical examinations. For taxi driver’s licences, LAs can require tests of knowledge and other matters relating to the operation of a taxi.<sup>39</sup>

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<sup>33</sup> Under section 46 Town Police Clauses Act 1847 and section 59 Local Government (Miscellaneous Provisions) Act 1976.

<sup>34</sup> Under section 51 Local Government (Miscellaneous Provisions) Act 1976.

<sup>35</sup> Under section 8 Metropolitan Public Carriage Act 1869.

<sup>36</sup> Paragraph 25, London Cab Order 1934.

<sup>37</sup> Under the Private Hire Vehicles (London) Act 1998.

<sup>38</sup> Under section 13(2) Private Hire Vehicles (London) Act 1998.

<sup>39</sup> Under section 13 Civic Government (Scotland) Act 1982.

- **Northern Ireland** – the Department of the Environment must not license drivers of taxis and PHVs unless they have held a driving licence for at least 12 months and are ‘fit and proper’<sup>40</sup>. Under separate regulations applicants must submit medical certificates and the Department of the Environment can refuse a licence if the applicant is not ‘of good character.’<sup>41</sup>

### 3.31 For vehicles:

- **England and Wales outside London** – LAs may attach to the grant of a taxi vehicle licence such conditions as they consider ‘reasonably necessary’.<sup>42</sup> For PHVs, LAs are required not to grant a licence unless they are satisfied that the vehicle is suitable in type, size and design for use as a PHV, is not of such design and appearance as to lead any person to believe that it is a taxi, is in suitable mechanical condition, safe, and comfortable and covered by a suitable insurance policy.<sup>43</sup>
- **London** – TfL can (and does) prescribe conditions for the grant of taxi vehicle licences.<sup>44</sup> TfL can refuse a taxi vehicle licence if the applicant fails to satisfy TfL that his vehicle conforms to the conditions of fitness set by TfL<sup>45</sup>, known colloquially as the ‘Metropolitan Conditions of Fitness’. Licensing of PHV vehicles in London has not yet begun, but TfL plan to introduce it in early 2004. When it does, TfL will be able to refuse a licence on the grounds relating to vehicle design, vehicle condition, and valid insurance.<sup>46</sup> The detail of the licensing framework for PHV vehicles is still being developed by TfL.
- **Scotland** – LAs must license taxi and PHV vehicles if they are satisfied that they are of suitable design, safe and covered by a suitable insurance policy.<sup>47</sup>

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<sup>40</sup> Under article 79A(3) Road Traffic (Northern Ireland) Order 1981.

<sup>41</sup> The Public Service Vehicles Regulations (Northern Ireland) 1985.

<sup>42</sup> Under section 47 Local Government (Miscellaneous Provisions) Act 1976. Section 68 of the Town Police Clauses Act also allows district councils to regulate how taxis ‘are to be furnished or provided’ by byelaw.

<sup>43</sup> Section 48 Local Government (Miscellaneous Provisions) Act 1976.

<sup>44</sup> Under section 6 Metropolitan Public Carriage Act 1869.

<sup>45</sup> Under paragraph 7(3) of the London Cab Order 1934.

<sup>46</sup> Section 7(2) Private Hire Vehicles (London) Act 1998.

<sup>47</sup> Under section 10 Civic Government (Scotland) Act 1982.

- **Northern Ireland** – the Department of the Environment must license taxi and PHV vehicles.<sup>48</sup> There are statutory requirements relating to the fitness, equipping and use of the vehicles.<sup>49</sup>

### 3.32 For operators:

- **England and Wales outside London** – PHV operators must be ‘fit and proper’, and LAs can attach to the grant of a licence ‘such conditions as they may consider reasonably necessary’.<sup>50</sup>
- **London** – prior to granting a PHV operator’s licence TfL must be satisfied that the applicant is a ‘fit and proper person’ to hold the licence.<sup>51</sup> There are further licensing conditions set by regulation, relating e.g. to insurance and previous convictions.<sup>52</sup>
- **In Scotland and Northern Ireland** – there is no power to licence PHV operators.

### Fare regulation

### 3.33 All four regimes allow fares to be regulated:

- **England and Wales outside London** – LAs are empowered to set fares for taxis, but not for PHVs;<sup>53</sup> According to case law, the fares set by LAs in this way are maximum fares – it is open to taxi drivers to set lower rates if they wish.<sup>54</sup>
- **London** – TfL can, with the Mayor’s approval, fix rates and fares for taxis by means of a London Cab Order.<sup>55</sup>
- **Scotland** – LAs must fix and review scales for the fares and other charges in connection with the hire of a taxi.<sup>56</sup>

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<sup>48</sup> Under article 60 Road Traffic (Northern Ireland) Order 1981.

<sup>49</sup> The Public Service Vehicles Regulations (Northern Ireland) 1985 and the Public Service Vehicles (Conditions of Fitness, Equipment and Use) Regulations (Northern Ireland) 1995.

<sup>50</sup> Under section 55 Local Government (Miscellaneous Provisions) Act 1976.

<sup>51</sup> Under section 3(3) Private Hire Vehicles (London) Act 1998.

<sup>52</sup> Under the Private Hire Vehicles (London) (Operators’ Licences) Regulations 2000.

<sup>53</sup> Section 68 Town Police Clauses Act 1847 empowers district councils to use byelaws to fix fares for taxis by time and/or distance. Section 65 of the Local Government (Miscellaneous Provisions) Act empowers district councils that have adopted its provisions to fix rates or fares on a time and/or distance basis, and all other charges in connection with the hire of a vehicle, by means of a table of fares.

<sup>54</sup> **R v Liverpool City Council ex p. Curzon Limited** 12 November 1993 CO/1338/91 QBD, unreported.

<sup>55</sup> Section 9 Metropolitan Public Carriage Act 1869.

<sup>56</sup> Under section 17(2) Civic Government (Scotland) Act 1982.

- **Northern Ireland** – the Department of the Environment can make byelaws to fix the maximum and minimum fares to be charged by taxi and PHV drivers for passengers and luggage.<sup>57</sup> Byelaws only fix fares for taxis in Belfast.

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<sup>57</sup> Under section 65 of the Road Traffic (Northern Ireland) Order 1981.

## 4 REVIEW OF QUANTITY REGULATION

### Introduction and summary

- 4.1 This chapter examines the effect that quantity controls have on the supply of taxi services. PHVs are not subject to quantity controls anywhere in the UK. Taxis are. Our analysis therefore looks only at taxis.
- 4.2 The historical origin of quantity controls lie in Royal Proclamations by Charles I in the 1630s.<sup>58</sup> One of the purposes of these proclamations was to restrict the number of hackney carriages in London following complaints that they caused street congestion and petitions by the Company of Watermen who feared that this new form of hired transport would deprive them of their livelihoods.<sup>59</sup>
- 4.3 Quantity controls on taxis in England and Wales currently have their basis in the Town Police Clauses Act 1847 and were likely introduced as a form of traffic restraint – to avoid streets becoming congested by coaches and horses. As amended by the Transport Act 1985 they allow LAs in England and Wales outside London to limit the number of taxi vehicle licences issued. In Scotland, the Civic Government (Scotland) Act 1982 gives LAs equivalent powers. Neither TfL in London nor the Department of the Environment in Northern Ireland has powers to restrict the number of taxi vehicle licences issued.
- 4.4 A fuller explanation of the legislation surrounding taxi and PHV licensing is at annexe A.
- 4.5 To assess the effect of the regulation we have looked at the impact quantity controls have on consumers. At present, 45 per cent of UK LAs restrict the number of taxi vehicle licences granted.<sup>60</sup> In carrying out our assessment we have, therefore, been able to compare taxi services in areas with and without restrictions. We have also been able to study the experience of LAs that have removed quantity controls and to examine international examples where regulations have been liberalised.

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<sup>58</sup> The first of these was 'A Proclamation for the restraint of excessive carriages to the destruction of the High Wayes' [1 November 1635], Proclamations, II Chronological Series, Charles I. [1625 – 1649].

<sup>59</sup> Pratt, E., A. *A History of Inland Transport and Communication in England*, Kegan Paul, Trench, Trubner & Co Ltd. London, 1912.

<sup>60</sup> OFT Statistical Analysis 2002 (annexe B).

- 4.6 The research we commissioned to aid us in this assessment is at annexes C, D, H, I, J and K.
- 4.7 In summary we have found that, all other things being equal, applying quantity controls has the following effects on the supply of taxis:
- there are fewer taxis per head of the population
  - people wait longer for taxis
  - people often have to use less suitable transportation as an alternative to taxis. This has safety implications
  - a shortage premium on taxi vehicle licences is often created, and
  - waiting lists to acquire a taxi vehicle licence can be long.
- 4.8 This has led us to conclude that quantity controls do not serve the best interests of consumers. They restrict them from securing the services they want and also impede those wanting to become taxi drivers from doing so.
- 4.9 **We therefore recommend that the legislative provisions allowing licensing authorities to impose quantity controls should be repealed. In the meantime, we recommend that licensing authorities with quantity controls remove them.**
- 4.10 This chapter looks at these issues in more detail. Section 1 looks at the extent to which quantity controls are currently applied. Section 2 examines the effect quantity controls have on supply. Section 3 looks at the effect quantity controls have on the users of taxis, section 4 looks at the effect on suppliers of taxi services, and section 5 looks at some of the arguments put forward in favour of quantity controls. Section 6 gives our conclusions and recommendations.

## **Section 1: the application of quantity controls**

### **Who applies quantity controls?**

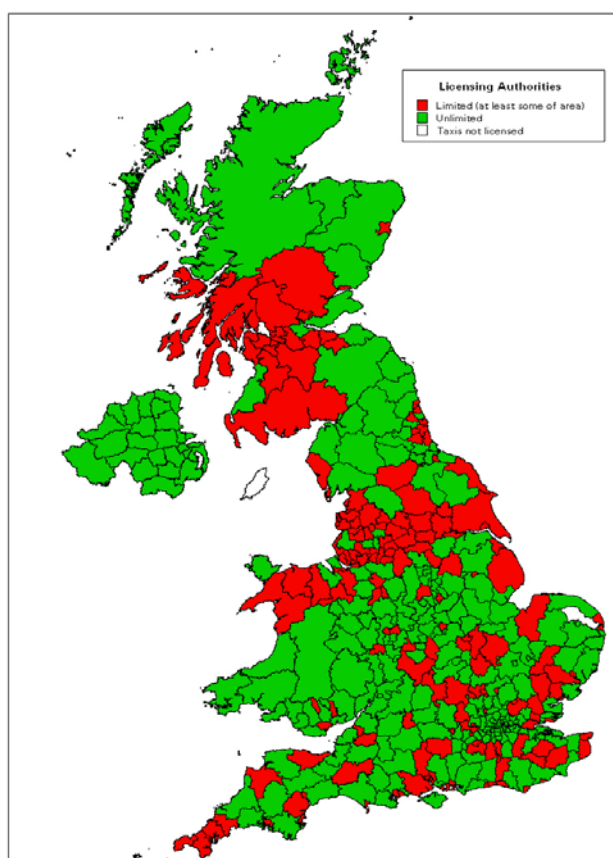
- 4.11 In England and Wales outside London and in Scotland the decision whether or not to restrict taxi numbers is taken by the local LA, and practice varies considerably across the country. The breakdown of the proportion of LAs applying quantity controls in urban, rural and mixed urban and rural areas is set out at table 4.1. The geographical distribution of these LAs is shown at figure 4.1.

TABLE 4.1: PERCENTAGE OF LAS WITH QUANTITY CONTROLS, BY TYPE, 2002

	Urban	Rural	Mixed	Total
Unrestricted	28	82	53	55
Restricted	72	18	47	45
Total	100	100	100	100

Source: OFT, Statistical Analysis 2002 (annexe B)

FIGURE 4.1: DISTRIBUTION OF QUANTITY RESTRICTIONS ON TAXI VEHICLE NUMBERS IN UK LICENSING AUTHORITIES<sup>61</sup>



<sup>61</sup> OFT Statistical Analysis 2002 (annexe B); Department for Transport, Taxi and Private Hire Vehicles in England and Wales 2001-02, June 2003.

- 4.12 At present, 45 per cent of UK LAs restrict the number of taxi vehicle licences granted. This represents 52 per cent of all licensed taxis in the UK outside London.<sup>62</sup> The majority of LAs applying quantity controls are urban: 72 per cent apply quantity controls compared to only 18 per cent of rural LAs. There are no clear systematic regional differences in the proportion of LAs that apply quantity controls.

### **Unmet demand studies**

- 4.13 If LAs are to refuse to issue further taxi licences they must first go through a process aimed at establishing that there is no 'significant demand that is unmet'.<sup>63</sup> They generally do this by carrying out an 'unmet demand' survey, on average every two to four years. The survey mainly involves observation at ranks of the demand for taxis, carried out over a representative period. If a survey suggests an unmet demand then the LA must issue the number of plates that the survey deems is required to meet the shortfall.
- 4.14 As a part of this study we have had access to data from a number of these surveys. We have also commissioned two similar surveys of our own to aid our analysis.<sup>64</sup>

### **Section 2: the effect of quantity controls on the supply of taxis**

- 4.15 This section looks at the impact that quantity controls have on the supply of taxis and the relationship between taxi and PHV numbers as a result of these controls.

### **Taxi provision per head of population**

- 4.16 Areas with quantity controls generally have significantly fewer taxis than those without.
- 4.17 Table 4.2 compares taxi and PHV provision per 1000 head of the population broken down into different types of LA.

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<sup>62</sup> OFT Statistical Analysis 2002 (annexe B).

<sup>63</sup> Under section 16 Transport Act 1985.

<sup>64</sup> OXERA: Modelling the Effects of Taxi Regulation (annexe H).

TABLE 4.2: AVERAGE NUMBER OF TAXIS AND PHVS PER 1,000 OF THE POPULATION

Type of LA		Restrictions on taxi numbers		
		Unrestricted	Restricted	Total
<b>All</b>	Taxis	1.22	0.94	1.08
	PHVS	1.01	2.01	1.46
	All vehicles	2.21	2.93	2.53
	<b>Ratio PHVs to Taxis</b>	<b>0.83</b>	<b>2.14</b>	<b>1.35</b>
<b>Urban</b>	Taxis	1.51	1.14	1.23
	PHVS	1.43	2.42	2.17
	All vehicles	2.94	3.52	3.38
	<b>Ratio PHVs to Taxis</b>	<b>0.95</b>	<b>2.12</b>	<b>1.76</b>
<b>Rural</b>	Taxis	1.09	1.00	1.05
	PHVS	0.66	0.93	0.73
	All vehicles	1.71	1.93	1.75
	<b>Ratio PHVs to Taxis</b>	<b>0.61</b>	<b>0.93</b>	<b>0.72</b>
<b>Mixed</b>	Taxis	1.25	0.75	1.01
	PHVS	1.22	1.90	1.52
	All vehicles	2.47	2.65	2.53
	<b>Ratio PHVs to Taxis</b>	<b>0.98</b>	<b>2.53</b>	<b>1.5</b>
<b>London</b>	<b>Taxis</b>	<b>2.88</b>	<b>-</b>	<b>2.88</b>

Source: OFT Statistical Analysis 2002 (annexe B)

Note: The number of taxis and PHVs per head does not sum exactly to the total number of vehicles because a small number of LAs did not provide data for both taxis and PHVs.

- 4.18 LAs without quantity controls have on average 30 per cent more taxis per head of population. This is true both for urban and rural LAs. In LAs with quantity controls the shortfall in taxi services gives rise to increased provision of PHVs. For example, Leeds (an authority with quantity

controls) has 402 taxi vehicles but around 3,000 PHVs whilst Liverpool (now restricted but effectively de-restricted for many years) has 1,417 taxis but only 900 PHVs.<sup>65</sup> The reason behind the higher proportion of PHVs is that where taxi numbers are artificially limited and demand outstrips supply, PHVs come in to fill part of the gap. However, because PHVs cannot ply for hire in the street they cannot substitute for all taxi services.

- 4.19 The finding that quantity controls reduce the supply of taxis is strongly supported by the more detailed case studies, looking at areas over time which have removed quantity controls. For example, in the four years since the removal of quantity controls, Cambridge's licensed taxi fleet has grown by 46 per cent and Sheffield's has grown by 52 per cent. This has been accompanied by a drop in PHV numbers of around 25 and 20 per cent respectively.
- 4.20 Waiting lists for taxi vehicle licences are generally made up of licensed PHV owners or drivers and licensed taxi drivers who do not yet have a vehicle licence.<sup>66</sup> Removing quantity controls generally stimulates members of the PHV trade to move over to driving taxis. This can often mean that there is only a small increase in the total fleet of licensed taxis and PHVs when taxi limits are lifted. For example, although the number of taxis in Bristol increased by over 150 per cent following removal of quantity controls, the combined fleet of taxis and PHVs increased by only four per cent.<sup>67</sup> The total number of vehicles in Cambridge and Sheffield

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<sup>65</sup> Halcrow: Impact of Regulation on Taxi Markets – Case Study Analysis, July 2003 (annexe D).

<sup>66</sup> OFT: Statistical Analysis 2002 (annexe B). Around two thirds of those on a waiting list for vehicle licences already hold a taxi driver licence, 44 per cent hold a PHV vehicle licence and 53 per cent hold a PHV driver licence – note that some hold both PHV vehicle and driver licences.

<sup>67</sup> Halcrow: Impact of Regulation on Taxi Markets – Case Study Analysis, July 2003 (annexe D).

following de-restriction also barely changed. As PHVs are more limited than taxis in the service they offer, the overall service to consumers improves, particularly in plying for hire.<sup>68</sup> This is examined in the next section.

### **Section 3: the effect of quantity controls on the users of taxis**

4.21 Fewer taxis per head of population can impact consumers in a number of ways. In particular:

- those wanting to take taxis have to wait longer for the service
- it restricts choice and may force consumers into taking alternative, less suitable, modes of transport
- it increases public safety concerns.

#### **Passenger waiting times**

4.22 Consumers facing restricted supply of taxis in quantity controlled areas might, instead of opting for alternative modes of transport, find themselves having to wait longer for a taxi.

4.23 Waiting times are affected by a number of factors in addition to regulation, such as time of day, population density, and overall economic activity. In order to separate out the impact of quantity controls on waiting times we commissioned a study of waiting times to take account of these factors.<sup>69</sup>

4.24 Data on average passenger delay from consumer surveys and an indicator of excess demand from on-street unmet demand surveys were used as measures of waiting time.<sup>70</sup> The quantitative analysis made allowance for the circumstances in which the taxi was hired, such as the time of day and whether it was booked by phone or hailed in the street, and the socio-demographics (economic activity and population age and density) of the LA.

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<sup>68</sup> It should be noted that whilst there is a short term decrease in PHVs serving the telephone booking market the number often begins to rise again within a relatively short time. In Dublin, following the removal of quantity controls, PHV numbers dropped initially but were back to almost pre-deregulation levels within two years whilst taxi numbers steadily increased.

<sup>69</sup> OXERA: Modelling the Effects of Taxi Regulation (annexe H).

<sup>70</sup> The excess demand indicator shows the proportion of hours (across all major ranks in the LA) for which more than two people were waiting for a taxi in any one hour.

## **Analysis of waiting times**

- 4.25 The central finding of this research, which accords with common sense, is that consumers wait longer for taxis in LAs with quantity controls. It also found that the stricter the entry control the higher the waiting time (some LAs with quantity controls issue a small number of licences each year while others may not issue a single licence for many years).
- 4.26 A straight comparison of waiting times in quantity controlled and uncontrolled areas, aimed at providing background on taxi usage, found that waiting times in restricted areas were 30 per cent lower than in unrestricted areas.<sup>71</sup> Further analysis by us indicated that this was largely explained by the fact that quantity controlled areas tended to be urban, rather than by the existence of quantity controls per se.<sup>72</sup>
- 4.27 So the straight comparison has to be adjusted statistically. The result was that, all other things being equal, in areas without quantity controls waiting times were between two and seven per cent lower than in those areas with quantity controls. At peak times the reduction in waiting time is even greater (10 per cent). These reductions, when considered in terms of the total number of journeys made each year, are considerable. A five per cent fall in waiting times amounts to around 2.5 million hours saved each year by UK consumers.<sup>73</sup> This gain does not include the gains of those who were deterred from waiting, in the expectation of not finding a taxi, in the first place.

## **Case studies**

- 4.28 In addition to the econometric research, we also looked in detail at two LAs, Sheffield and Cambridge, where we conducted two new unmet demand studies. These LAs have recently removed quantity controls. We compared the results of the new studies with existing unmet demand

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<sup>71</sup> Halcrow: Impact of Regulation on Taxi Markets – Consumer Survey (annexe C). At ranks only.

<sup>72</sup> The data from quantity controlled LAs was also based on a small sample number – only six out of 58 LAs sampled had no quantity controls. The waiting times in one of these LAs, Worcester, based on consumer self reported times, were extremely large, despite contradictory evidence from a rank based study and from the local licensing officer.

<sup>73</sup> This number is obtained by applying the reduction in waiting time to the average passenger delay in restricted areas from the Halcrow consumer surveys (7.52 minutes) times the number of trips per person per year from the National Travel Survey (12) times the UK population living in LAs with quantity controls (25.5 million).

studies for these areas that had been carried out when the limits were still in place. This enabled useful comparisons of waiting times and customer satisfaction before and after removing quantity controls.

- 4.29 In Sheffield, removing quantity controls led to the number of taxis rising from 300 in 1998 to 457 in 2003. This resulted in a drop in passenger waiting times. The proportion of people waiting over five minutes for a taxi at ranks fell from 27 percent in 1998 to nine per cent in 2003. The overall average waiting time fell from 1.47 minutes to 1.23 minutes over the same period. Although this is a small decrease for individual journeys, if we take it across all journeys from ranks it equates to 4,420 hours of saved waiting time per year.<sup>74</sup>
- 4.30 In Cambridge, where the number of taxis increased from 147 in 1999 to 215 in 2003, passenger delay also decreased. The proportion of people waiting over five minutes at a rank for a taxi fell from 20 per cent in 1999 to six per cent in 2003. In 2003 the average passenger delay fell to 1.67 minutes from 2.29 minutes in the 1999 study. This equates to over 6,300 saved hours.<sup>75</sup>

### **Reduced choice**

- 4.31 If there are fewer taxis available, consumer choice is restricted as to the type of transport they can use. Consumers who otherwise would have taken a taxi may have to opt for other, less preferred and less suitable, modes of transport.<sup>76</sup> Removing quantity restrictions could put an extra 15,000 taxis on the road.<sup>77</sup>
- 4.32 In a survey conducted by our consultants 15 per cent of consumers in all LAs said high waiting times were the main reason for not using taxis or PHVs.<sup>78</sup> This suggests that, were waiting times to drop, consumers who do not currently use taxis or PHVs would begin to. This was the case in

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<sup>74</sup> Calculated by taking the number of weekly passenger departures from ranks (21,250) observed by the 2003 Halcrow unmet demand survey.

<sup>75</sup> Some caution should be noted with regard to the results from the Cambridge survey since the 2003 exercise was conducted outside of University term time and a considerably lower number of journeys were observed.

<sup>76</sup> Aside from direct consumer detriment it may be argued that there are issues relating to the environment and traffic congestion. These are discussed later in the chapter.

<sup>77</sup> Estimated by calculating how many more taxi vehicles there would be if the number of taxis per head in authorities with quantity controls rose to the same level as those without numerical limits (as measured by the OFT Survey of Licensing Authorities, 2002 (see annexe B).

<sup>78</sup> OXERA: Consumer Survey Report, September 2003 (annexe I).

Sheffield where removal of quantity controls resulted in the numbers of passenger journeys from ranks increasing by eight per cent after de-restriction and waiting times dropping by 16 per cent (the number of taxis rose by 34 per cent).

- 4.33 Our case studies have shown that following the removal of quantity controls there has been a change in consumers' preferred use of taxis and PHVs. In particular, there has been a substantial increase in the proportion of passengers hailing a taxi in the street as opposed to ordering it by telephone. The proportion of respondents hailing taxis in the street increased from seven per cent to 44 per cent in Sheffield and from nine per cent to 30 per cent in Cambridge. The proportion pre-ordering taxis by telephone fell substantially and rank usage increased.

TABLE 4.3: METHOD OF TAXI AND PHV HIRE FOR LAST TRIP

	Sheffield		Cambridge	
	1998	2003	1999	2003
<b>Hail in street</b>	7%	44%	9%	30%
<b>Rank</b>	34%	20%	27%	37%
<b>Telephone</b>	59%	36%	64%	33%
<b>All</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Halcrow, Impact of Regulation on Taxi Markets - Case Study, table 4.5 (annexe D)

- 4.34 Overall, therefore, the case studies strongly support the proposition that consumers value and use the greater choice opened up by removing quantity controls.

### Consumer safety

- 4.35 Restricting the supply of licensed taxis raises issues of public safety. As a part of our study we have spoken to and received submissions from several UK police authorities. Anecdotal evidence from some of these authorities suggest that a shortage of safe transport, particularly taxis available to ply for hire from the street or ranks, during the late evening contributes to difficulties faced by police in clearing city centres or public

places.<sup>79</sup> The inability to clear these areas can be a contributory factor to violence and public disorder.

- 4.36 Licensing officers, police authorities and the taxi trade press that we have spoken to have also highlighted concerns about the safety issues surrounding consumers' use of illegal taxis and PHVs that are not licensed to ply for hire, especially during evening peak times.<sup>80</sup> When there is a lack of available taxis consumers have tended to use alternative methods to make their journey and this can include illegal taxis. We conducted a survey which showed that seven per cent of consumers who had taken some form of taxi or PHV in the last 12 months had used an illegal taxi or a PHV not licensed to ply for hire at least once.<sup>81</sup> This equates to approximately 1.8 million people per year.<sup>82</sup>
- 4.37 A large number of people are therefore placing themselves in danger from drivers who may not have undergone a police check and vehicles that may be unsafe.
- 4.38 Some consumers have also said that they have used PHVs which have been illegally plying for hire where a taxi was unavailable. PHVs illegally plying for hire invalidate their insurance, limiting means of redress in the event of an accident. Again, this creates a consumer protection problem.
- 4.39 We believe that the availability of more taxis, and strong enforcement of the licensing regulations, would help address these issues.

#### **Section 4: the impact of quantity regulation on the supply side**

- 4.40 Quantity controls also constrain individuals or businesses wishing to enter the market to serve consumers. Two sources of evidence from areas where quantity restrictions apply point to this conclusion: firstly, the unofficial premium value attached to taxi vehicle licences when taxi vehicles are sold; and secondly, the waiting lists for taxi vehicle licences. We now consider each of these in turn.

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<sup>79</sup> Lothian and Borders Police, Transport Operational Command Unit of the Metropolitan Police, Northumbria Police and Sussex Police.

<sup>80</sup> By illegal taxis we mean vehicles that are completely unlicensed.

<sup>81</sup> TNS: Taxi and PHV Omnibus Consumer Survey 2003 (annexe K).

<sup>82</sup> TNS: Taxis and PHV Omnibus consumer Survey 2003 (annexe K). Our survey recorded that 57 per cent of adults use taxis each year. The total number of adults who have used an illegal taxi is therefore 0.57 multiplied by 45,435,000 (the number of adults in the UK) multiplied by 0.07 = 1.8 million.

## Taxi vehicle licence shortage premiums

- 4.41 As a result of their limited supply in areas where quantity restrictions apply, taxi vehicle licences have acquired an unofficial 'street' value when licensed taxi vehicles are sold. This value is unrelated to the administrative fee charged by the LA to cover the cost of issuing the licence – a fee which averages £170 for the initial application and £65 for renewals<sup>83</sup>. If taxi proprietors are willing to pay a premium to enter the market, this suggests that they consider that they can make sufficiently high profits to justify the shortage premium, whether because there is a ready supply of consumers waiting for services or because LAs have to set fares at a higher rate to reduce high waiting times. The precise level of the vehicle licence shortage premium is determined by a range of factors but the key one is quantity control.
- 4.42 Shortage premiums exist in spite of a free PHV market as PHVs cannot serve the rank and hail market. Premiums should only exist in areas where quantity restrictions apply in England and Wales outside London and in Scotland.
- 4.43 In our survey of UK licensing authorities we asked LAs to estimate the value of vehicle licence shortage premiums. The average estimated licence shortage premium (where it exists) for a licensed vehicle is around £16,500 (in addition to the cost of the taxi itself). The estimated values obtained are as high as £50,000 in Woking and Wycombe and £40,000 in Crawley, but more generally 50 per cent of estimated vehicle licence shortage premiums are between £7,500 and £25,000.<sup>84</sup>
- 4.44 It should be noted that these premiums are paid through private transactions between taxi proprietors and taxi drivers or others wishing to purchase a vehicle with its vehicle licence. The LA does not charge or receive the premium price when issuing a vehicle licence.

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<sup>83</sup> OFT Statistical Analysis 2002 (annexe B).

<sup>84</sup> Halcrow: Valuation of Hackney Carriage Licence Figures, July 2003 (annexe E). Documentary evidence of the exact size of premiums is seldom available because these are private transactions. However licensing officers are reasonably confident of their estimates due to their close working proximity with the taxi trade.

## Taxi vehicle licence waiting list

- 4.45 In half of the LAs with quantity controls, individuals applying for a taxi vehicle licence are placed on a waiting list and have to wait until they reach the top of the list before getting a licence (although some LAs have a ballot system to prevent taxi vehicle licences from being concentrated in the hands of one or two large fleet owners).<sup>85</sup> They remain on this waiting list until either more licences are issued or they are able to purchase a licensed taxi from someone leaving the trade. Some LAs, for example Woking, do not maintain a waiting list since they do not intend to issue new licences in the foreseeable future.
- 4.46 In LAs that apply quantity controls and have a waiting list there are, on average, 78 people waiting for taxi vehicle licences. In 10 per cent of LAs the number waiting for a vehicle licence exceeds the number of licences currently in circulation (table 4.4 shows the longest waiting lists by LA).

TABLE 4.4: LONGEST WAITING LISTS FOR VEHICLE LICENCES BY UK LOCAL AUTHORITY

Local Authority	Number of Licensed Taxis	Applicants on waiting list for a Taxi Vehicle Licence
Manchester	814	750
Dundee	507	400
Hull	170	376
Sunderland	284	279
Watford	63	205
Stoke	89	200
Crawley	79	170

Source: OFT: Statistical Analysis 2002 (annexe B)

- 4.47 Almost all applicants on the waiting list are currently part of the licensed taxi or private hire trade. About two thirds of those on waiting lists for taxi vehicle licences already hold a taxi driver licence, 44 per cent hold a PHV vehicle licence and 53 per cent hold a PHV driver licence.<sup>86</sup>

<sup>85</sup> OFT Statistical Analysis 2002 (annexe B).

<sup>86</sup> OFT Statistical Analysis 2002 (annexe B).

## **Section 5: arguments in favour of quantity controls**

- 4.48 Our conclusion is that there is a strong case for removal of quantity controls. On the basis of the evidence, service to consumers is poorer with quantity controls. These controls stop consumers getting the service they prefer and they also stop potential entry by firms wishing to provide those services.
- 4.49 There is no clear economic rationale for quantity controls which appear to have been introduced in the 1630s primarily to prevent street congestion.
- 4.50 Notwithstanding this, in the course of this study we have come across a number of arguments which could potentially be put in favour of quantity controls. These are discussed below.

### **There is no significant unmet demand**

- 4.51 One argument which has been put to us is that unmet demand tests ensure that quantity controls do not result in under supply to the market. We do not accept this argument for three reasons:
- it is not an argument to justify quantity controls, but one which says, at most, that they do not have a detrimental effect. If it cannot be shown that quantity controls serve a useful purpose the presumption should be that they are unnecessary
  - our evidence shows that, despite unmet demand tests, there is considerable unmet demand
  - we have looked carefully at unmet demand studies as part of our research, and do not consider that they accurately measure unmet demand for taxis.
- 4.52 Unmet demand studies do not properly assess latent demand (i.e. the passengers who would choose to go by taxi if more were available or waiting times were lower). Fifteen per cent of consumers in all LAs said high waiting times were the main reason for not using taxis or PHVs. In Sheffield, removal of quantity controls resulted in the numbers of passenger journeys from ranks increasing by eight per cent as the number of taxis increased by 34 per cent and waiting times dropped by 16 per cent.
- 4.53 Unmet demand studies focus heavily on unmet demand at ranks. They do not measure actual waiting times, or demand, from consumers hailing taxis in the street (some survey evidence attempts to do this by asking consumers to report from memory how long they waited for a taxi on the

street, but more reliable observational data is not collected). Our study of both Sheffield and Cambridge LAs showed that after quantity controls were removed the proportion of passengers hailing a taxi in the street increased substantially.

### **Maintaining the quality of service**

- 4.54 It is argued that without any limit on the quantity of vehicle licences the quality of both taxi vehicles and drivers will fall. Therefore consumers will receive a poorer quality of service.
- 4.55 As regards vehicles, the argument is that a rise in taxi numbers will cause vehicle quality to fall as the only proprietors to survive would be those which run lower quality vehicles and skimp on maintenance at the expense of safety. With drivers, although removing quantity controls may lead to more entry into the profession it is felt that it might also lead to more exit if there is an oversupply of taxis, leading to the loss of experienced drivers.
- 4.56 We reject these arguments on the basis that quality specifications and quantity limits are regulated separately. Given this, if quality controls are maintained, there is no evidence to show, and no reason to suppose, that the removal of quantity restrictions impact on quality. Our discussion of quality regulation is in chapter 5.
- 4.57 Our international study has shown that following the simultaneous removal of quantity **and** quality controls, fleet quality sometimes decreases as a consequence. Sweden is a prime example of this. It removed both quantity and quality regulations and saw a sharp rise in the number of taxis on the road, both substandard vehicles and those that would have previously met quality requirements. In 1995 the authorities reintroduced quality requirements and teams to enforce them which led to a plateau in taxi numbers and an increase in the quality of vehicles within the fleet. The Swedish experience shows risks of simultaneous quality and quantity de-restriction but not of quantity de-restriction alone.
- 4.58 In the UK a number of LAs have removed quantity controls while concurrently increasing fleet quality. When Cambridge removed quantity controls it introduced more stringent controls on age of vehicles and accessibility and saw overall quality of vehicles improve. Birmingham introduced wheelchair accessible vehicles and increased tightness on emission controls while removing quantity controls.

- 4.59 Neither does controlling the number of taxi vehicles guarantee driver experience or knowledge of the local area. LAs can manage driver quality directly through setting particular requirements for driver licensing, for example a geographical knowledge test appropriate to the locality.
- 4.60 In any event, and not only after the removal of quantity controls, the key to maintaining quality in the market is to ensure that both driver and vehicle (and PHV operators) are subject to sound quality controls that are backed up by robust enforcement.
- 4.61 The cost savings from removing the apparatus of quantity control (including unmet demand surveys) can boost the resources that LAs may have available for the enforcement of quality controls.

### **To ensure an adequate supply of taxis**

- 4.62 Another potential argument is that, if drivers are unable to earn enough from taxi work, operators will take on other jobs and only undertake taxi work at evenings and weekends, when it is most profitable, leading to a lack of availability of taxis outside these periods.
- 4.63 Our analysis leads us to reject this argument, as does the experience of LAs that have de-restricted. When quantity controls are removed taxi supply increases. The evidence on waiting times shows that availability increases at all times of day. In any event it would run counter to common sense for the lifting of quantity controls to result in less supply.

### **To prevent drivers working longer hours**

- 4.64 It is argued that increasing the number of taxis may lead to a fall in the revenue of drivers. Drivers must therefore work longer hours to maintain the same income which may have public safety implications.
- 4.65 The key argument here is that drivers may put themselves and passengers at risk if they work excessively long hours. In fact there is no statistically significant difference, when allowing for the type of LA, in the number of taxi accidents between areas where no quantity controls exist and areas where they do (see table 4.6).<sup>87</sup>

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<sup>87</sup> OFT: Statistical Analysis 2002 (annexe B). This is the number of taxi road traffic accidents involving personal injury, as a proportion of total accidents in LAs, including a correction for whether the licensing authority is urban or rural.

TABLE 4.6: TAXI ACCIDENTS AS A PERCENTAGE OF ALL ROAD TRAFFIC ACCIDENTS, 2001

Type of LA:	Restriction		Total (%)
	Unrestricted (%)	Restricted (%)	
Urban	2.4	2.8	2.7
Rural	0.9	0.6	0.8
Mixed	1.3	1.4	1.4
London	2.5	-	2.5
Total	1.3	1.9	1.6

Source: OFT analysis of Department for Transport Road Traffic Data (annexe B)

- 4.66 While there is no clear evidence of a problem in the UK this has been a concern in some international markets and a number of measures have been put into place specifically to prevent drivers working excessive hours following the removal of quantity controls.<sup>88</sup> For example, New Zealand controls driver rest periods through the use of a log book. In Sweden, the authorities log driver hours with an on-board computer.
- 4.67 It should also be noted that the Working Time Regulations 1998<sup>89</sup> apply to employed taxi and PHV drivers (who are classed as 'mobile workers') and impose a limit of an average working week of 48 hours (unless drivers agree to work longer) and adequate rest periods. These rules do not apply to self-employed taxi and PHV drivers.
- 4.68 To conclude, we do not consider that maintaining quality controls to protect drivers' incomes and hours of working is a valid argument on the facts. There are, in any case, alternative regulatory methods of preventing drivers working excessive hours to ensure driver and passenger safety.

<sup>88</sup> TOI: Impact of Taxi Market Regulation, an International Comparison, May 2003 (annexe J).

<sup>89</sup> S.I. 1998/1833, as amended by the Working Time (Amendment) Regulations 2003 to implement Council Directive 2000/34/EC (OJ No. L195, 1.8.2000, p.41).

## **To prevent overcrowding at ranks**

- 4.69 Where the amount of rank space provided is limited, it is argued that removing quantity controls would lead to rank overcrowding and illegal parking. This could especially be the case in urban centres or LAs where the market is centred on focal points such as railway stations and when little space is available for expansion.
- 4.70 There is limited evidence to indicate that overcrowding has been a problem in LAs after the removal of quantity controls. Our case studies, however, show that where this is an issue, the market often adjusts with a smaller proportion of taxis waiting at ranks and a greater proportion plying for hire on the street or expanding to serve different areas. In Bristol, after the removal of quantity controls, it was noted that taxis were serving more residential areas which had previously not had any service.
- 4.71 While we accept that potential rank overcrowding is an issue for LAs without quantity controls, in our view it can be managed. For example new ranks or temporary ranks to cover weekend and evening peaks may be created. Marshals could also be used at peak times to help speed up traffic flow.

## **To reduce traffic congestion, air pollution and encourage public transport use**

- 4.72 Another set of arguments is that limiting the supply of taxis encourages use of public transport, and reduces congestion and air pollution.
- 4.73 Again we do not find these arguments supportable:
- our consumer research shows that if consumers are unable to get a taxi, they will generally not switch to public transport, nor to environmentally friendly and congestion reducing modes of transport, but would tend instead to use their car
  - congestion and pollution caused by motor vehicles is a huge problem of which taxis are only a small part. These problems are already dealt with directly through fuel taxation and through initiatives such as congestion charging and pedestrianisation of city centres. Since taxis are often used in conjunction with other public transport (for example at the start and end of train journeys) or at times when other public transport is not available, restricting taxis could even decrease other public transport use.

4.74 Our evidence and analysis suggest that limiting taxi numbers will not effectively address these issues.

### **To protect licence shortage premiums**

4.75 Past experience in the UK and elsewhere has shown that when quantity restrictions are removed in an area, the privately traded value of shortage premiums on taxi vehicle licences falls away. Vehicle licences become readily available provided that applicants and their vehicles meet quality and safety conditions, and the unofficial scarcity value that previously existed in the licence (over and above the licence fees charged by the LAs to cover administrative costs, and the value of the vehicle) disappears. In practice this means that taxi vehicle licence holders who privately purchased a licensed taxi before quantity restrictions were lifted cannot recoup the cost of the licence shortage premium when they sell their licensed taxis after the quantity restrictions have been lifted<sup>90</sup>. As noted in paragraph 4.43 above, in the UK the average licence shortage premium in areas where quantity restrictions apply is estimated at £16,500.

4.76 It is argued that lifting quantity restrictions is unfair on those licence holders who have paid a licence shortage premium to enter the taxi market during times when quantity restrictions were in place, as they bear the burden of being unable to recoup this cost when they exit the market.

4.77 We have considered this view and conclude that protection of taxi vehicle licence shortage premiums does not justify retaining quantity controls. In economic terms the premium value attached to vehicle licences in quantity restricted areas is an artificial one, created by the constraints on the market caused by regulation. The premium value does not relate to any effort of the licence holder to improve service levels and quality, and therefore the licence holder has not 'earned' it. Moreover, it is unofficial – it is unrecognised by statute, and legal ownership of the licence, and the licence plates attached to the taxi vehicle, remains at all times with the LA that issued them.

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<sup>90</sup> This issue will not arise for licence holders who were licensed directly by the LA prior to the lifting of quantity restrictions, rather than purchasing a licence with a licensed vehicle and having the licence holder details changed. Direct licensees will not have paid any shortage premium to acquire the licence.

- 4.78 Since section 16 of the Transport Act 1985 came into force on 6 January 1986, LAs in England and Wales outside London and in Scotland have been permitted to restrict taxi licence quantities only if they reasonably consider that there is no significant unmet demand for taxis within their areas. LAs may lift quantity restrictions whether or not there is unmet demand for taxis, and must lift quantity restrictions (whether permanently or temporarily) if there is significant unmet demand. In 1985 the Department of Transport, the Scottish Development Department and the Welsh Office suggested <sup>91</sup> that LAs should consider lifting quantity restrictions. As we have already noted, quantity restrictions are now only in place in 45 per cent of UK LAs, and several LAs have lifted quantity restrictions since the Transport Act 1985 came into force. Taxi licence holders in areas where quantity restrictions apply have therefore been aware for some time that these could be lifted at any time by their LA.
- 4.79 In our view the protection of certain taxi licence holders from a one off loss of rental value that could lawfully occur under existing legislation does not justify maintaining the market inefficiencies caused by taxi licence quantity restrictions.
- 4.80 It has been suggested in the past<sup>92</sup> that if quantity restrictions are lifted, this should be phased in to offer some protection for existing licence holders enjoying licence shortage premiums in areas where quantity restrictions apply. We considered this as a possibility and rejected it on the basis that:
- phasing in does not address the competition problems in the market place quickly enough

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<sup>91</sup> In a 4 December 1985 joint circular on the Transport Act 1985, the Department of Transport, the Scottish Development Department and the Welsh Office stated: 'District councils may wish to review their policy on the control of taxi numbers in the light of [section 16 Transport Act 1985]. Limitation of taxi numbers can have many undesirable effects – an insufficiency of taxis, either generally or at particular times or in particular places; insufficient competition between the providers of taxi services, to the detriment of their customers; and prices for the transfer of taxi licences from one person to another which imply an artificial restriction of supply.' Circular3/85 Department of Transport, Circular 32/85 Scottish Development Department, Circular 64/85 Welsh Office, paragraph 27.

<sup>92</sup> See, e.g. the Fourth Report of the House of Commons Transport Committee on Taxis and Private Hire Vehicles, Volume I, Report and Minutes of Proceedings, Session 1993-94, 30 March 1994, paragraph 140.

- there is no economic justification for quantity controls or licence shortage premiums, and it is more appropriate to remove them altogether than to allow them to continue in a modified form
- it will be difficult for LAs to carry out a fair selection of new licensees when limited numbers of new licences are issued during the phasing in period.

4.81 We are aware of an unsuccessful legal challenge<sup>93</sup> brought by an individual taxi licence holder who suffered loss of the value of the licence shortage premium he had paid to acquire his licensed taxi when his LA deregulated quantity controls.<sup>94</sup> We believe that the long term benefit to society of lifting quantity restrictions, in terms of lower waiting times, improved safety and lower costs of market entry, outweigh the short term interests of existing taxi licence holders in maintaining the artificial value of taxi licences. In reaching this conclusion, our function has been to report primarily on the competition effects of taxi regulation and its effect on the welfare of consumers of taxi services. We have not considered the social welfare effects of lifting quantity restrictions on particular licence holders or classes of licence holder. When deciding whether to follow our recommendation, Government will no doubt weigh in the balance any social welfare issues for particular licence holders or classes of licence holder that come to light in any consultation that may be held.

## Section 6: conclusion and recommendations

4.82 Comparing licensing areas with quantity restrictions with those without, we conclude that quantity controls have a clear detrimental impact on the public which shows up in the following ways:

- shifting consumers onto less preferred and/or suitable modes of transport
- increasing waiting times
- compromising public safety.

4.83 We have found no cogent rationale for quantity controls to balance against these detriments. Nonetheless, we have examined a number of

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<sup>93</sup> **R (Royden) v Metropolitan Borough of Wirral** [2002] EWHC 2484. This was a challenge, in part, under Article 1 of the First Protocol to the European Convention on Fundamental Rights and Freedoms.

<sup>94</sup> Further information on this case and on the basis of the challenge is set out in Annex A.

arguments which have been advanced in the course of our study. We find each of these arguments to be unsupported by the evidence and/or outweighed by the clear benefits of de-restriction.

- 4.84 In our view, the existence of quantity controls causes consumer detriment and does not address any problems in the market that cannot be more effectively addressed by other means. We therefore conclude that the removal of quantity controls will benefit consumers, particularly through the higher availability of taxis and lower waiting times. In our view, the best service to consumers will be achieved by enabling consumer demand, rather than regulations, to determine a level of taxi service supply that meets the needs of the public.

### **Recommendation based on this assessment**

- 4.85 **We therefore recommend that the legislative provisions allowing licensing authorities to impose quantity controls should be repealed. In the meantime, we recommend that LAs with quantity controls remove them.**

## 5 REVIEW OF QUALITY AND SAFETY REGULATION

### Introduction

- 5.1 This chapter reviews the regulations relating to quality and safety controls. LAs have the power to regulate quality and safety in relation to the issue of taxi vehicle and driver licences and PHV vehicle, driver and operator licences.
- 5.2 In addition, the implementation of section 32 of the DDA95 will impose further quality regulation by requiring disabled access to certain licensed taxi vehicles.
- 5.3 To assess the impact of quality and safety regulations we have:
- looked at the rationale behind quality and safety controls and the protection they afford consumers
  - looked at the effect quality and safety controls have in practice
  - looked at what consumers expect in the way of quality and safety
  - consulted with groups representing older people and the disabled and considered the particular needs of these consumers.
- 5.4 We have found that consumers value quality and safety controls for vehicles and drivers which address matters that are difficult for them to judge when hiring a taxi (e.g. the technical safety of the vehicle and the competence of the driver). Quality and safety controls are considered necessary to ensure passenger safety and security. Our central conclusion is, therefore, that quality and safety controls should be maintained and effectively enforced.
- 5.5 However, it is important that quality and safety requirements are applied proportionately to avoid unnecessary barriers to competition. In this regard we have some concerns about the inconsistent application of quality and safety specifications by LAs. We believe that local regulation should match local requirements and when deciding quality and safety specifications, LAs should consider the needs of consumers and the effect of the proposed specifications on the availability of taxis and PHVs. LAs should try to ensure that any quality and safety specifications set do not go beyond what is required to achieve this policy aim.
- 5.6 For example, the Metropolitan Conditions of Fitness (MCF), where applied by an LA, set detailed vehicle specifications such as a maximum turning circle, a maximum step height and wheelchair accessibility to certain specifications. The MCF were written expressly to meet the needs of

London but have been adopted by other LAs so that they cover 44 per cent of taxi vehicles in the UK.<sup>95</sup> Only certain models of vehicle currently meet these requirements. These are significantly more expensive than the saloon cars and wheelchair accessible vehicles allowed by many LAs. There is a danger that the additional cost of MCF compliant vehicles may raise prices and deter entry to the market thus limiting supply and leading to a poorer service for consumers.

- 5.7 Our view is that the appropriateness of quality and safety controls in the UK taxi and PHV services market is best decided at the local level. LAs would be better placed to decide on proportionate levels of quality and safety control if they had access to more information about common experience and best practice.
- 5.8 **We therefore recommend that the Department for Transport promote and disseminate local best practice in applying quality and safety regulations involving the Scottish Executive and the Department of the Environment (NI) in this process. The purpose of this would be to assist LAs to apply standard quality and safety attributes in a proportionate manner.**
- 5.9 In applying quality and safety regulation LAs should carefully consider the needs of disabled consumers. Part V of the DDA95, which has yet to be implemented, is intended to help ensure that disabled people, including those who wish to remain in their wheelchairs, can get into and out of, and travel in, licensed taxis in safety and reasonable comfort. The DfT has recently announced its proposals and timetable for implementing the taxi accessibility requirements in Part V DDA95.<sup>96</sup> Prior to implementation, the power to regulate taxis and PHV in a way that meets the needs of disabled passengers remains with LAs. Our research has shown large differences in the way LAs address disability issues with regard to taxis. A minority of LAs require their taxis to be wheelchair accessible and an even smaller number require taxi drivers to undergo some form of disability awareness training.
- 5.10 Those LAs which have required taxis to be wheelchair accessible have primarily followed the specifications laid down by the MCF. These

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<sup>95</sup> OFT Statistical Analysis 2002 (annexe B).

<sup>96</sup>These regulations will not apply to PHVs.

vehicles, however, are not necessarily the most accessible for those with impaired mobility not needing a wheelchair.

- 5.11 In setting quality and safety controls LAs should closely consult with disability groups to ensure their needs are correctly recognised.
- 5.12 We would also note that if quantity restrictions apply to vehicles suitable for disabled passengers, then those restrictions may be particularly detrimental to the supply of taxis to disabled people.
- 5.13 The rest of this chapter looks at these issues and the background to our recommendation in more detail. Section 1 looks at the rationale behind quality and safety regulations, section 2 looks at existing quality and safety regulations, section 3 assesses the impact of quality and safety regulations, section 4 looks at issues surrounding disabled access to taxi services and the potential impact of the DDA95 and section 5 gives our conclusions.

## **Section 1: why regulate quality and safety?**

### **The aims of quality regulation**

- 5.14 In the 1993 Green Paper<sup>97</sup> the Department for Transport (DfT) stated that any regulation relating to taxis and PHVs needed to be justified against one or more of four specific objectives:
- **the safety and security of passengers, drivers and others on the road** - it is not unreasonable for passengers to expect the vehicles in which they travel to be safe and for the driver be competent and a fit and proper person to hold a licence. In addition to these basic safety requirements, LAs may also wish to impose regulations to improve the quality of service provided to the travelling public, for example stipulations on the size and design of the vehicle
  - **consumer protection** – many of these important aspects of safety and security cannot be judged by passengers when hiring a taxi or PHV. Regulations ensure that consumers are protected
  - **accessibility** – especially for those with impaired mobility (including those disabled passengers who use and wish to remain in their wheelchairs) so as to ensure they can get into and out of, and travel

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<sup>97</sup> Department for Transport: Taxis and Private Hire Vehicles: A Consultation Paper on the Future of taxi and Private Hire Vehicle Services in England and Wales, 1993.

in, taxis in reasonable safety and comfort. Without quality regulations vehicle licence holders and applicants may not choose to purchase wheelchair accessible vehicles because they are unable to derive extra income to compensate them for their additional investment

- **environmental protection** – to control emissions. It may be possible to reduce these through specific methods such as fitting oxidation catalysts or converting taxis to run on LPG, but, given the general improvements in fuel efficiency in cars over time, levels of taxi vehicle emissions are most often controlled through limits on vehicle age.

## The rationale for quality regulation

- 5.15 The public care a great deal about the quality of service provided to them. Our survey showed that passengers rate the quality and safety of the driver and vehicle as the most important features of service ahead of the fare they are charged.<sup>98</sup>
- 5.16 When hiring a taxi or PHV passengers are unable to judge important aspects of the quality of either cars or drivers and must, in effect, take them on trust. For example, on entering a taxi (except in limited cases) a passenger is unlikely to be in a position to establish the roadworthiness of the vehicle or whether the driver has valid insurance or, indeed, a criminal record.
- 5.17 In a market with no quality regulation and where the level of repeat business is not high, the fact that passengers cannot determine many aspects of quality and safety could create the incentive and the opportunity for operators or drivers to skimp on quality and safety, particularly if acquiring a particular level of quality and safety involves extra cost. An example of this is geographical knowledge of an area. When hiring a taxi or a PHV consumers are unable to judge whether a driver has a good geographical knowledge or not. A driver must often pay to obtain this knowledge by studying for and taking knowledge tests. In a situation where passengers cannot immediately determine the level of a driver's knowledge a driver might decide not to incur the costs of training. Thus consumers would be worse off.

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<sup>98</sup> OXERA: Consumer Survey Report (annexe I).

- 5.18 We believe that there are strong reasons for regulating quality and safety to ensure that these important, but usually imperceptible, standards are maintained.

## **Section 2: existing quality and safety controls**

### **Regulatory powers of licensing authorities**

- 5.19 Quality and safety controls apply to taxi vehicle and driver licences, and to PHV vehicle, driver and operator licences. Aspects of quality that are regulated generally fall within the areas of service, safety and technical efficiency. Fuller details on the regulatory controls are given at annexe A.
- 5.20 LAs have considerable regulatory flexibility in applying quality and safety controls and this flexibility is reflected in the differing levels of control in different LAs. Even so, our research has shown common areas of regulation (although the strictness of the regulation can vary from LA to LA). The rest of this section looks at the application of quality and safety controls to taxi vehicles and drivers and to PHV vehicles, drivers and operators.

### **Quality regulation of the licensed taxi trade**

#### **Vehicles**

- 5.21 Our study has shown that the following quality and safety controls are commonly applied to vehicles:
- **age limits** – a maximum age is stipulated in 45 per cent of LAs that responded to our survey – the average limit is nine years <sup>99</sup>
  - **vehicle testing at regular intervals** – this is required in 90 per cent of LAs, mostly six monthly
  - **vehicle identification** – mainly relating to the provision of a roof sign for taxis
  - **fitting of taximeters** – this is required for taxis in 93 per cent of LAs
  - **specification of minimum engine size** – this occurs in 50 per cent of LAs.
- 5.22 Twelve per cent of LAs (covering approximately 44 per cent of all taxis) stipulate that all licensed taxi vehicles in their area should comply with

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<sup>99</sup> OFT: Statistical Analysis 2002 (annexe B).

the MCF.<sup>100</sup> The conditions prescribe, for example, wheelchair access, a turning circle of 7.62 metres, a partition separating passenger from driver, a maximum step height, door height and a maximum width and height of the vehicles. Only two manufacturers currently produce vehicles that meet all these specifications.

- 5.23 Fourteen per cent of LAs (covering approximately 50 per cent of taxis) have a fully wheelchair accessible taxi fleet. The appropriateness of a vehicle for use as a wheelchair accessible taxi tends to be judged at a local level on a case by case basis. There are companies operating in the UK that specialise in adapting vehicles to operate as licensed taxis. All are wheelchair accessible though none meet all the provisions for the MCF. They do, however, supply vehicles in those LAs that have not adopted the MCF or have not required all the provisions of the MCF to be met.

### **Drivers**

- 5.24 There is a duty on LAs<sup>101</sup> only to grant licences to drivers who are 'fit and proper'. As with vehicles, whilst there are considerable variations in application, there are a number of common regulations imposed on licensed taxi drivers including:
- **a criminal record check** – required by all LAs that license taxis
  - **a medical examination** – required by 94 per cent of LAs
  - **a topographical knowledge test** – required by 60 per cent of LAs, although they vary greatly in scope
  - **minimum driver age limits** – 56 per cent of LAs require drivers to be 21 or over.

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<sup>100</sup> Department for Transport: Taxi and Private Hire Vehicles in England and Wales, 2001-02

<sup>101</sup> This is the case for LAs in England and Wales outside London and in Northern Ireland. In London, TfL has a **power**, rather than a duty, not to license applicants if it is not satisfied that they are 'of good character and fit to act as cab drivers' (under paragraph 25 London Cab Order 1934). In Scotland, LAs can require tests of knowledge and other matters relating to the operation of taxis.

## Quality regulation of the private hire trade

### Vehicles

- 5.25 The vehicle standards applied by LAs in the private hire trade are generally less onerous than for taxis. Having said this, 25 per cent of (predominantly rural) LAs apply quality conditions for PHVs that are similar to those for taxis (with the exception of signage – the difference between taxis and PHVs must be visibly apparent).
- 5.26 The conditions attached to PHVs generally concern the basic characteristics of the vehicle (e.g. that it should have four doors) and its roadworthiness. As with licensed taxi vehicles, around half of LAs have an age limit for PHVs.<sup>102</sup>

### Drivers

- 5.27 There are fewer differences between the taxi and PHV driver licensing regimes, with around 56 per cent of LAs in England and Wales having a dual licensing scheme - albeit often with different topographical knowledge tests - for taxi and PHV drivers.<sup>103</sup> A dual licensing scheme either means that there is one licence which entitles the holder to drive both a taxi and PHV or that there are separate licences but the conditions, apart from a knowledge test, are identical.
- 5.28 Knowledge tests are required for PHV drivers in 48 per cent of LAs, compared with 60 per cent for taxi drivers. Where the test is mandatory for both taxi and PHV drivers, the required level of knowledge is higher for taxi drivers in 22 per cent of LAs and the same for taxi drivers and PHV drivers in the remaining 78 per cent of authorities. All LAs require taxi and PHV drivers to undergo criminal record checks.

### Operators

- 5.29 The granting of an operator's licence in England and Wales (operator's licences do not exist in Scotland and Northern Ireland) is conditional on the applicant being a fit and proper person to hold a licence. This generally includes a criminal record check.
- 5.30 Other requirements LAs commonly place on the licence holder include detailed requirements for maintaining records of journeys booked and

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<sup>102</sup> NATPHLEO: Taxi Regulation in England, 2000

<sup>103</sup> Department for Transport :Taxi and Private Hire Vehicles in England and Wales, 2001-2

vehicles used, proof of planning permission and radio transmission licences where appropriate and, in the case of operators who invite the public to make bookings in person, that the operator's premises are suitable for carrying out a private hire business.

### **Section 3: assessment of the current system**

- 5.31 As mentioned above, a key rationale for quality regulation is the safety and security of passengers, drivers and others on the road. Our research suggests that quality and safety controls are generally working well in this regard though it is important they are supported by effective enforcement. While we have some anecdotal evidence of individual failings we have no systematic evidence that taxi or PHV vehicles are unsafe or that drivers do not undergo police checks when licences are issued.
- 5.32 However, it is important that quality and safety controls are applied in a proportionate manner. Our study has highlighted substantial variation across LAs. In some LAs potential drivers may face a topographical knowledge test, an enhanced driving test and regular health checks. In other LAs any or all of these may not apply. For vehicles, differing age limits are allowed, depending upon the LA. These sorts of variations can easily occur in neighbouring authorities. For example, the maximum age for re-licensing a taxi in East Hertfordshire is 15 years. In North Hertfordshire it is seven years.
- 5.33 While we believe that local regulation should match local needs there is a question over whether quality and safety controls are striking the right balance between consumer protection and the costs incurred in satisfying the quality and safety requirements.
- 5.34 An example of this is the MCF. As mentioned above, these were written expressly to meet the needs of London but have been adopted by other LAs so that they cover 44 per cent of taxi vehicles in the UK. Only certain models of vehicle currently meet these requirements. These are significantly more expensive than the saloon cars and wheelchair accessible vehicles allowed by many LAs.<sup>104</sup> There is a danger that the

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<sup>104</sup> For example, a new London-style black cab costs approximately £28000 while a modest new four-door saloon costs between £8000 and £14000.

additional cost of MCF compliant vehicles may raise prices and deter entry to the market thus limiting supply and leading to a poorer service for consumers.

- 5.35 An example where the requirements set are possibly too low are topographical knowledge tests. Results from our consumer survey indicate that passengers in taxis and PHVs consider it important that their driver has a good geographical knowledge of the area,<sup>105</sup> yet a knowledge test forms part of the licence procedure in only 60 per cent of LAs for taxi drivers<sup>106</sup> and 52 per cent of LAs for PHV drivers.<sup>107</sup>

#### **Section 4: disabled access to taxis and phv services**

- 5.36 This section looks at the issues surrounding disabled access to taxi and PHV services and the impact that quality regulation can have in this area.

##### **Access for disabled people**

###### **Taxi usage by disabled people**

- 5.37 Taxis and PHVs are used more frequently by disabled people (67 per cent more) than non-disabled people, according to a MORI survey.<sup>108</sup> The same survey also concluded that disabled people find taxis and PHVs the easiest mode of transport to use because of their flexibility. However serious problems remain for some disabled people.<sup>109</sup>
- 5.38 Approximately 8.6 million people in the UK are disabled,<sup>110</sup> and it has been estimated that five per cent of these use a wheelchair some of the time.<sup>111</sup>

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<sup>105</sup> OXERA: Consumer Survey Report, September 2003 (annexe I).

<sup>106</sup> OFT: Statistical Analysis 2002 (annexe B).

<sup>107</sup> NATPHLEO: Taxi Regulation in England, 2000.

<sup>108</sup> Attitudes of Disabled People to Public Transport, MORI 2002, undertaken for the Disabled Persons Transport Advisory Committee.

<sup>109</sup> In using the term 'disabled' we have taken the meaning as given in section 33 of the DDA95 which defines a disabled person as someone with 'a physical or mental impairment which has a substantial and long-term adverse effect on his ability to carry out normal day-to-day activities.'

<sup>110</sup> Aged 16 – 75 in Great Britain. Source: Grundy, E., Ahlburg, D., Ali, M., Breeze, E. and Sloggett, A. (1999), Disability in Great Britain: Results from the 1996/97 Disability Follow-Up to the Family Resources Survey, DSS Research Report 94. This figure is based on a definition of disability derived from the World Health Organisation, as 'the inability, due to an impairment, to perform activities in typical and personally desired ways in society'. The 8.6 million figure roughly equates to those who would be covered by the DDA95.

<sup>111</sup> There is no reliable data on UK wheelchair users, though the Employers Forum on Disability estimate that five per cent of disabled people use a wheelchair some of the time.

- 5.39 Across the UK the provision of taxis and PHVs for disabled people varies between LAs with the rural areas having the lowest level of provision. Where provision is made, some LAs will subsidise journeys made by disabled people who meet certain criteria. This can have the effect of increasing taxi and PHV demand and usage.
- 5.40 The DfT is encouraging LAs to develop their own accessibility policies. At the end of 2002, six per cent of LAs required taxi drivers to undergo disability awareness training<sup>112</sup> and 14 per cent of LAs required their licensed taxis to be wheelchair accessible.<sup>113</sup> LAs that require all their taxi fleet to be wheelchair accessible primarily follow the specifications laid down by the MCF and tend to be in urban areas.

### **How disabled people use taxis and PHV services**

- 5.41 Disabilities vary and what is an accessible vehicle to one person may not be to another. In relation to travel a disabled person's preferred mode of transport may not be just a preference but the only way to get from A to B. Access to a particular type of taxi or a PHV vehicle might be the only means of getting on with daily life.
- 5.42 There is a limited amount of data available on the preferred method of taxi travel for disabled persons. However, a survey from Brighton and Hove shows that, for those who expressed a preference, 53 per cent of disabled people prefer to use saloon cars rather than wheelchair accessible taxis (see Table 5.1).<sup>114</sup>

**TABLE 5.1: DISABLED PEOPLE'S VEHICLE PREFERENCE FOR TAXI JOURNEYS IN BRIGHTON AND HOVE**

	%
Wheelchair accessible cab	22
Saloon car	53
No preference	25
<b>Total</b>	<b>100</b>

<sup>112</sup> Department for Transport: Taxi and Private Hire Vehicles in England and Wales 2001-2, 2003

<sup>113</sup> OFT: Statistical Analysis 2002 (annexe B).

<sup>114</sup> Table 4, page 8, Vehicle Preference for Taxi journeys. Taxi Users: Their views in Brighton and Hove, Geraldine Petterson, June 1999.

- 5.43 As disabled consumers have different needs, several vehicle types are needed to satisfy varied requirements.
- 5.44 Disabled consumers use taxi and PHV services differently when compared to the UK population as a whole. Disabled people are more likely to use these services for the essential activities of life. Where they can afford to do so, the research from Brighton and Hove suggests that 80 per cent of disabled people will use taxi and PHV services for shopping or to attend medical appointments.<sup>115</sup> This is in contrast to usage patterns for the UK population as a whole. These show that the most common purpose of their last taxi or PHV trip was for leisure reasons (50 per cent) while only 21 per cent last used a taxi or PHV for shopping and seven per cent last used a taxi or PHV to attend medical appointments.<sup>116</sup>

#### **Views of disability groups**

- 5.45 According to a MORI survey on a range of public transport services, disabled people were very satisfied with the services provided by taxis and PHVs. This could be due to the personal service that some disabled people receive from local taxi/ PHV firms.<sup>117</sup>
- 5.46 The MORI survey indicated that disabled people had less satisfaction with the quality of services provided by local councils. The Disability Rights Commission advises that LAs do not give sufficient consideration to the diverse needs of disabled passengers. Disability groups hope that implementation of the DDA95 will give LAs a national benchmark against which to set accessibility requirements for taxi services for their disabled population.

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<sup>115</sup>Table 2, page 5, Respondents' Use of Taxis. Taxi Users: Their views in Brighton and Hove, Geraldine Petterson, June 1999.

<sup>116</sup> Halcrow: Impact of Regulation on Taxi Markets – Consumer Survey, July 2003 (annexe C)

<sup>117</sup> Attitudes of Disabled People to Public Transport, MORI 2002, undertaken for the Disabled Persons Transport Advisory Committee.

- 5.47 RADAR, an umbrella organisation representing 450 disability groups, has stated that disabled people require good workable regulations from the DDA95 to achieve a nationwide transport network. In relation to taxi services this means regulations that allow for personal choice according to an individual's needs. RADAR only see this being possible if a range of vehicle types can co-exist under the DDA95, each vehicle type complying with one aspect of the DfT regulations, meeting the needs of specific disabilities.<sup>118</sup>
- 5.48 Because of the usage patterns of taxis and PHVs by disabled people, disability groups view both taxis and PHVs as public transport. However, as PHVs are not licensed for immediate hire they are not covered in Part V of the DDA95. When pre-booking a journey disabled consumers may specify what type of vehicle they wish to travel in, but along with other consumers they may have no way of knowing if their journey will ultimately be in a licensed taxi or a PHV.
- 5.49 There are also concerns amongst disability groups that the goals of Part V DDA95 could be jeopardised if taxi and PHV drivers are not required to have general disability awareness training and specific training in how to use vehicle wheelchair ramps and secure wheelchairs.

### **The Disability Discrimination Act 1995 (DDA95)**

- 5.50 Section 32 of the DDA95, in part V of the Act, gives the Government power to make taxi accessibility regulations. These provisions have not yet been implemented, but their purpose is to help ensure that disabled people have the same flexibility and choice in their use of taxis as the rest of the travelling public. Under section 32 of the DDA95 PHVs will not have to be wheelchair accessible.
- 5.51 The DfT has recently announced its proposals and timetable for implementing the taxi accessibility requirements in Part V DDA95. It plans to start by applying the taxi accessibility regulations only to a listed number of 'first phase' LAs. The intention is to target those areas where accessible taxis will make the biggest impact on meeting the needs of disabled people and where the additional cost will not have a major effect. The proposed time scale is to introduce the DDA95 regulations in

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<sup>118</sup> RADAR plans to survey its members' taxi and PHV preferences in the spring of 2004.

these areas over a 10 year period from 2010 to 2020. LAs in the 'first phase' have been selected because they meet one or more of the following criteria:

- a LA population of at least 120,000 people
- a major transport interchange
- a major tourist attraction, or
- an existing mandatory policy resulting in 100 per cent accessible vehicles.<sup>119</sup>

5.52 LAs not meeting any of the above would not be subject to DDA95 in the first instance though the DfT intends to issue voluntary guidance to these LAs on establishing an appropriate mix of vehicles and on vehicle design. How these LAs introduce accessible vehicles will then be monitored by the DfT to see if the guidance is effective. The DfT will then decide whether to extend the taxi accessibility regulations to these LAs. The DfT intend to publicly consult on these proposals for England and Wales. DDA95 implementation in Scotland and Northern Ireland is a devolved matter so they will carry out their own separate consultations on implementation.<sup>120</sup>

### **Impact of the DDA95**

5.53 Fourteen per cent of LAs, covering approximately 50 per cent of taxis, currently have a fully wheelchair accessible fleet. However, the implementation of the DDA95 will impact on the licensed taxi fleets of all LAs. All taxis in LAs in the 'first phase' will need to meet the vehicle specifications for wheelchair accessible taxis that will be set out in the proposed regulations, and all LAs outside the 'first phase' will need to consider the proposed DfT voluntary guidance.

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<sup>119</sup> A LA stipulating that its taxis meet the Metropolitan Conditions of Fitness.

<sup>120</sup> Subject to the current arrangements during the suspense of devolution in Northern Ireland

## Section 5: conclusions

5.54 We believe that there is a strong case for regulating quality and safety both for taxis and PHVs for the following reasons:

- consumers cannot judge certain standards such as the safety of the vehicle and the competence of the driver when getting into a taxi or PHV. Quality and safety regulation provides essential protection to consumers
- taxi services have a role to play in broader social welfare policy such as helping to ensure greater vehicle accessibility or improving environmental protection, and LAs should consequently be able to apply such regulations to suit their needs.

5.55 We therefore conclude that quality and safety controls should be maintained and should be supported by effective enforcement. Quality and safety controls are only one aspect of taxi and PHV regulation and it is important that these controls work effectively with the rest of the regulatory system. This is particularly important if LAs remove quantity controls on taxis. International experience has shown that the simultaneous removal of quantity and quality controls can sometimes reduce fleet quality. In the UK, certain LAs that have removed quantity controls have also raised vehicle specifications.<sup>121</sup>

5.56 That said, it is important that quality and safety requirements are applied in a proportionate manner. Our analysis has highlighted substantial variation across LAs.

5.57 We believe that local regulation should match local requirements but think that LAs, when deciding on quality and safety specifications, should consider the needs of consumers and the effect of the proposed specifications on the availability of taxis and PHVs. LAs should try to ensure that any quality and safety specifications set do not go beyond what is required to achieve this policy aim.

5.58 Our view is that the appropriateness of quality and safety controls in the UK taxi and PHV services market is best decided at the local level. LAs would be better placed to decide on proportionate levels of quality and

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<sup>121</sup> This is discussed in more detail in paragraphs 4.54 to 4.61.

safety control if they had access to more information about common experience and best practice.

- 5.59 **We therefore recommend that the Department for Transport promote and disseminate local best practice in applying quality and safety regulations involving the Scottish Executive and the Department of the Environment (NI) in this process. The purpose of this would be to assist LAs to apply standard quality and safety attributes in a proportionate manner.**
- 5.60 In applying quality regulation LAs should carefully consider the needs of disabled consumers. Requirements in the future DDA95 regulations on taxi accessibility will form part of the quality controls that some LAs will have to apply to taxis. For those LAs outside the 'first phase' DfT guidance will give assistance in providing an accessible taxi fleet. At present there are large differences in the way LAs address disability issues with regard to taxis, so in addition to following DfT guidance, we would like to see them consult with local disability groups before introducing changes in vehicle specification.

## 6 REVIEW OF FARE REGULATION

### Introduction and summary

- 6.1 This chapter reviews the regulation of taxi fares. To assess the impact of fare regulation we:
- looked at the rationale behind fare regulation and the protection it affords consumers
  - considered the impact that fixing fares has on the market for taxis
  - took into account the experiences of international markets that have deregulated fares.
- 6.2 The research we commissioned to inform this assessment is at annexes D and J.
- 6.3 We have found that, whilst there are some arguments for removing fare regulation, the case for retaining controls is much stronger. The nature of the rank and hail sector of the taxi market makes it almost impossible for consumers to exercise choice on price as it is very difficult to shop around. Deregulating fares may therefore lead to higher prices. This is particularly important, for example for disabled consumers (who may not have access to alternative forms of transport), for those concerned about their safety (for example if they are catching a taxi late at night), or for those who do not know the local area. In these and other instances, fare regulation protects consumers from being overcharged.
- 6.4 However, there are measures that could be taken to introduce further competition on price into the market.
- 6.5 **We recommend that throughout the UK LAs should only set fare tariffs which represent the maximum that can be charged, and not set fixed or minimum fares. It should be made clear to consumers that they are able to negotiate on fares, for example, when ordering a taxi over the telephone. We also recommend that, where possible, LAs actively facilitate more price competition in the market, particularly in the rank and hail sectors of the market.**
- 6.6 This chapter looks at these issues and the background to the recommendations in more detail. Section 1 looks at the background to fare setting in the UK. Section 2 deals with the effects of these regulations on the market. Section 3 assesses a number of different

approaches to fare regulation and section 4 gives our conclusions and recommendations.

## **Section 1: background to fare setting**

- 6.7 LAs can regulate fares for taxis but not for PHVs. Ninety-five per cent of LAs that responded to our survey regulate fares.
- 6.8 In England, Scotland and Wales outside of London fares set by LAs represent the maximum that can be charged<sup>122</sup>. This allows taxis to compete on price by offering lower fares to consumers. However only 25 per cent of those LAs responding to our survey make this clear on their fare tariff cards. In London, a mandatory tariff is set which does not allow taxis to give discounts to consumers on a regular basis.<sup>123</sup> In Northern Ireland the LA has the power to set both maximum and minimum fares, although in practice these are set at the same level, creating a mandatory tariff.
- 6.9 In those authorities where fares are set by the LA, taxis tend to use taximeters to measure the distance and/or time involved in a journey. This is often required by the LA as a licensing condition.<sup>124</sup> In England and Wales outside London PHVs may also use taximeters, but LAs cannot require them to do so. However, if they choose to use taximeters, these must be tested and approved by or on behalf of the relevant LA. There is no clear pattern of taximeter use by PHVs. Our survey of LAs found that in some cases the majority of PHVs have taximeters fitted whilst in others no PHVs have taximeters fitted.
- 6.10 LAs have no powers to set PHV fares.<sup>125</sup> Fares are set by individual firms or may be negotiated directly with customers. Our survey of LAs found no clear relationship between taxi fares and PHV fares. In some areas licensing officers report that PHV fares are significantly lower than taxi

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<sup>122</sup> This was established in the case of **R v Liverpool City Council ex p. Curzon Limited** 12 November 1993 CO/1338/91 QBD, unreported.

<sup>123</sup> Although they are allowed to depart from this tariff on occasion, e.g. if a passenger has had their money stolen. This judgement must be made on a case by case basis. There is no blanket discretion.

<sup>124</sup> This is not always the case. For example in Dumfries and Galloway the fare is calculated based on the distance shown by taxi's mileometer rather than using a taximeter.

<sup>125</sup> Apart from the Department of the Environment in Northern Ireland, which may set fares for PHVs as well as taxis but in practice does not do so.

fares, whilst in other areas it is common for PHVs to have taximeters fitted and to charge the same fares as taxis.

### **Fare regulation in practice**

- 6.11 The process for setting taxi fares differs between LAs. Statistics from the DfT show that in 35 per cent of authorities surveyed, the fare tariff is revised following requests from the taxi trade, and in 65 per cent the fare is revised on a regular basis, in most cases yearly.<sup>126</sup>
- 6.12 The decision-making process for changing fare levels also differs widely. In London, a formula for fare increases has been established, based on changes to driver and vehicle costs. Outside London the standard process in many areas is for representatives of the taxi trade to put forward a proposed fare increase to the local council's licensing committee, which is then either approved or rejected. The law requires that any change to the fare tariff must be published in a local newspaper and deposited for inspection at the council offices for a minimum of 14 days. This allows members of the public to complain if they are unhappy with the proposed change. Some licensing authorities go further than this and directly consult with the public through focus groups and citizens' panels to get their views about taxi fares.<sup>127</sup>
- 6.13 Table 6.1 illustrates the wide variety of different taxi tariffs throughout the UK.

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<sup>126</sup> Department for Transport: Taxi and Private Hire Vehicles in England and Wales, 2001-2002.

<sup>127</sup> For example this practice occurs in Bristol, where a citizens' panel was consulted about the current level of taxi fares.

TABLE 6.1: MOST EXPENSIVE AND LEAST EXPENSIVE TAXI FARES BY LICENSING AUTHORITY:

Most expensive			Least expensive		
1	Luton (Airport)	£6.00	1	Hartlepool	£2.70
2	Vale of White Horse	£5.30	2	Alnwick	£2.80
	Epsom & Ewell	£5.20		Bolsover	£2.80
	Hertsmere	£5.20	3	North East Derbyshire	£2.90
	London	£5.20		North Lanarkshire	£2.90
3	Caradon	£5.10	4	Berwick on Tweed	£3.00
4	Adur	£5.00		Sedgefield	£3.00
	Brighton & Hove	£5.00		Warrington	£3.00
	Maidstone	£5.00	5	Blaenau Gwent	£3.10
	Sevenoaks	£5.00		Inverclyde	£3.10
	Tunbridge Wells	£5.00		North Tyneside	£3.10
				Thanet (Broadstairs)	£3.10

Source: Private Hire and Taxi Monthly, November 2003, based on a standard two mile daytime journey (The average UK fare is £3.93).

- 6.14 The level of fares in each area is likely to depend on a number of local factors including the bargaining power of the taxi trade, the affluence of taxi users in the area and the costs of providing taxi services. There is no obvious geographical pattern to explain the above results. We also have no evidence to suggest that fare levels differ between LAs with or without quantity controls.

## **Section 2: regulating taxi fares for on-street and rank hiring**

- 6.15 This section sets out the rationale for fare regulation for rank and hail. In doing so we present theoretical and empirical evidence that underlies the rationale.
- 6.16 The legislation governing PHVs prevents them from plying for hire on the street or at ranks, so this section relates only to taxis.

### **Do taxi fares need to be regulated?**

- 6.17 Fare regulation is intended to protect consumers from overcharging by taxis. In the 1993 Green Paper on taxis, the DfT stated that 'the control of taxi fares is justifiable, if at all, only because the consumer of taxi services at ranks or in the street is in a peculiarly weak position, cannot shop around, and is very vulnerable to overcharging'.<sup>128</sup>
- 6.18 There are two main arguments given in support of fare regulation:
- the structure of the market and the way it operates provides little incentive for price competition between licensed taxi drivers
  - to protect vulnerable consumers.

#### **Lack of competition in the market**

- 6.19 The way taxis are hired from the street and from ranks results in situations where there is little consumer pressure for taxis to compete on price.
- 6.20 Consumers hailing taxis from the street face high and uncertain search costs. Shopping around is not a realistic option. If they choose to turn down a taxi because it is too expensive the waiting time until the next taxi arrives is uncertain, as is the relative price and quality of the next taxi compared to the current one. Moreover, consumers cannot return to the original taxi if they cannot find a cheaper option. The first taxi that the consumer hails effectively makes a 'take it or leave it' offer, which the consumer has to assess with very limited information.<sup>129</sup>

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<sup>128</sup> Department for Transport: Taxis and Private Hire Vehicles: A Consultation Paper on the Future of taxi and Private Hire Vehicle Services in England and Wales, 1993

<sup>129</sup> See Diamond, P. (1971). 'A model of price adjustment', Journal of Economic Theory 3, p156-168. and Shreiber, C. (1975), 'The economic reasons for price and entry regulation of taxi cabs', Journal of Transport Economics and Policy 9, p268-279.

- 6.21 Similarly, when consumers hire taxis from taxi ranks they are generally required to take the first cab from the rank. On many ranks this is convention rather than necessity and could be changed, but on some ranks there is simply no room for taxis to pull out from the middle of the rank. Again there is no scope for consumer choice, and so no incentive for taxis to compete on price.
- 6.22 For price competition to occur, taxis need to be able to signal to consumers that they are cheaper and customers need to be able to exercise choice over which taxi they use. As described above, customers hiring taxis from ranks or in the street are usually not able to exercise choice. In contrast, when booking a taxi over the telephone consumers are often in a better position to shop around and find the best price.
- 6.23 Price competition is more likely to occur in situations where firm reputation and repeat business are important. For firms operating in the telephone booking sector the chance of repeat business is higher and taxi firms are able to increase future sales by lowering prices. In this situation price competition is more likely to occur.
- 6.24 Where firms operate in both the phone sector and the hail and rank sector, price competition in the phone booked sector can in theory translate into lower prices in the hail and rank sectors. This may occur where a firm has a recognisable brand and competition in the phone booked sector keeps prices low. Any temptation on the part of firms to increase prices in the hail and rank sector would be tempered by the risk of losing the low price reputation gained in the phone booking sector. However this effect is likely to be limited and there is no empirical evidence to support the theoretical argument.
- 6.25 Overall, the combination of the inherent nature of the on-street taxi service, the first in first out rule at ranks, high search costs and the weak bargaining position of consumers means that taxis operating at ranks and on the street are not constrained by the competitive forces which result from consumers shopping around. As a result there is an incentive to charge high prices in the absence of some form of fare regulation. Where taxis are booked by telephone the scope for consumers to shop around helps to constrain the prices taxis can charge.

## **Consumer protection**

- 6.26 Fare regulation is particularly important for consumers in a vulnerable position where they are more susceptible to overcharging.
- 6.27 First, consumers such as disabled and older people are likely to be in an even weaker bargaining position than other consumers because they are less able to take alternative forms of transport. This means they may be liable to get charged even more than other consumers if fares were not regulated.
- 6.28 This problem also applies to consumers in particular vulnerable situations. For example, those trying to catch a taxi late at night who may be concerned about their personal safety will be in a particularly weak bargaining position and could be charged a high price by an unscrupulous taxi.
- 6.29 The second problem is that some consumers will simply be less well informed than others about the price of taxi services and alternatives to taxis and so will be in a weak bargaining position over the fare. Tourists are a good example of this type of poorly informed consumer.
- 6.30 In the absence of fare regulation, there is no mechanism that will prevent consumers in vulnerable situations being charged excessively for using taxis services.

## **What happens when fares are deregulated?**

- 6.31 Ninety-five per cent of UK LAs responding to our survey who licence taxis also regulate taxi fares, so domestic evidence on fare deregulation is limited. There is some anecdotal evidence from those authorities that do not regulate fares which suggests that consumers are not being charged excessively for taxi services. However, these authorities are mainly in rural or semi-rural areas with the vast majority of work coming from telephone bookings. As explained above, this might have the effect of encouraging price competition.
- 6.32 There is some evidence on the effects of fare deregulation from countries and cities around the world that have deregulated taxi fares. The results of these deregulations are mixed and depend on a number of factors. These include local circumstances such as the structure of the taxi market, the level at which the fare was set prior to deregulation, and other regulatory changes that accompanied fare deregulation. For this reason, the results of fare deregulation outside the UK can only provide

an indication of the potential outcomes from taxi fare deregulation in the UK rather than a definitive answer.

- 6.33 The following, taken from our international study shows what happened in five countries that deregulated fares.<sup>130</sup> The effects of fare deregulation varied considerably between the five countries. In some cases deregulation has been a success whilst in others fare regulation has been re-introduced. This lack of a strong evidential base in support of fare deregulation is an important result in itself.

#### **Sweden**

- 6.34 Taxi fares were deregulated in Sweden in 1990. Fares increased initially in real terms but have since increased in line with inflation. The deregulation of fares coincided with the introduction of a 25 per cent value added tax on fares. The introduction of this tax distorted the immediate effect of price deregulation as a high proportion of the tax increase would have been passed on from taxi firms to consumers, so it is not clear whether the subsequent price increases were due to price deregulation or tax. In the years following price deregulation, fare increases have been smallest in large cities and greatest in rural areas. This may reflect a lack of competition in rural areas or simply higher costs associated with taxi provision in these areas which have been passed on directly to consumers.
- 6.35 Strict rules govern the information on fares that Swedish taxis must display. These include displaying the price of a standard 15 minute trip of 10km on the inside of the vehicle and also on the outside of the vehicle in lettering that is visible at least two metres away.
- 6.36 To encourage price competition between taxis, different ranks charge different fares and consumers can choose between ranks on the basis of their preferences about waiting times, fares and quality of vehicle.

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<sup>130</sup> TOI: The Impact of taxi market regulation - An international comparison (annexe J).

### **New Zealand**

- 6.37 In New Zealand taxi fares were deregulated in 1989. Fares have fallen in real terms in larger cities (by 15 to 25 per cent) while the results in smaller towns were ambiguous. The law requires that maximum fares must be registered with the Secretary of Transport and calibrated on the compulsory taxi meter. Individual taxis are free to set their own fares below this maximum. The fare must be displayed on the inside and outside of the vehicle.

### **Norway**

- 6.38 Uniquely, taxi fares have been deregulated in some larger cities without any accompanying removal of entry controls. Where fares have been deregulated they have increased. Unlike Sweden and New Zealand fare deregulation has not been accompanied by strict rules about providing information on fares to consumers.

### **The Netherlands**

- 6.39 In the Netherlands, since 2000, regulated fares instead of being fixed, have been set at maximum levels. Fares have risen. This is because the licensing authority has increased the maximum fare. Our study shows that there is some evidence of price competition occurring, based on reports of some taxis charging less than the maximum fare.

### **The United States**

- 6.40 During the 1970s and 1980s, a number of US cities deregulated almost all aspects of their taxi services including fares. Following deregulation, fares increased in real terms in almost all cases and fare controls were subsequently re-introduced. Fare increases for street and rank hiring were greater than fare increases in the telephone booking sector. The effect was particularly clear in terms of increased fares at airport ranks.
- 6.41 It is not possible to draw overall conclusions from these international examples. It is clear that fare deregulation has in some cases led to increases in fares. However, it appears that strict requirements on fare setting and providing information to consumers may have contributed to the relative success of fare deregulation in New Zealand.

## Potential problems of taxi fare regulation

- 6.42 Notwithstanding the benefits of fare regulation, it needs to be recognised that fixing fares at a particular level can cause problems in the way that the market works.
- 6.43 LAs have very limited information about the taxi market on which to base their fare setting decisions. In many areas of the UK, the taxi industry is highly fragmented so gathering information from firms difficult. If LAs set fares too low, this may lead to long queues of consumers waiting for taxis. If fares are set too high, this may lead to long queues of taxis waiting at ranks or cruising the streets looking for work.
- 6.44 Setting fixed taxi fares also reduces the scope for price changes to act as a signal for matching supply with demand as happens in a normal competitive market. Where fares are fixed rather than set as a maximum, the limited potential for taxi firms to compete on fares is removed completely. In the hail and rank sectors, price competition is likely to be very limited, but in others there is more scope for competition to occur. Examples are ranks that do not require the consumer to take the first taxi on the rank or areas where lots of cruising taxis make search costs lower.<sup>131</sup>
- 6.45 Furthermore, if taxis were allowed to charge higher fares at times of peak demand this would encourage more taxis to operate at these times. This would benefit consumers by reducing waiting times during periods of peak demand. LAs can help to reduce waiting times to some extent by setting peak and off-peak fare tariffs that encourage a greater supply of taxis at peak times and less at off peak times. Anecdotal evidence on this point comes from London where the Public Carriage Office and representatives of the Licensed Taxi Drivers Association have told us that recent increases in the fares tariff at night have encouraged more taxis onto the streets at these busy periods.

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<sup>131</sup> Halcrow: Impact of Taxi Regulation on Taxi Markets – Case Study (annexe D). For example, in Worcester passengers are not required to take the first cab from the rank. However there was no evidence that this leads to price competition among taxis.

## **Section 4: assessment of approaches to fare regulation**

6.46 In arriving at our recommendations on fare regulation we considered the likely effects that would arise from different degrees of fare deregulation.

### **Full fare deregulation**

6.47 A full fare deregulation option, where consumers negotiate fares with drivers, was rejected due to competition and consumer protection problems in the hailing and rank sectors as outlined above.

### **Partial fare deregulation**

6.48 Another option considered was partial fare deregulation, which would involve taxi firms setting their own maximum fare tariffs and keeping maximum fares at that level for an obligatory minimum period. Firms would be required to display a standard sample fare so that it is visible outside the taxi. Partial fare deregulation has occurred in Sweden and in New Zealand. The strict rules on how companies set and display their fares protect vulnerable consumers from being over-charged.

6.49 Partial deregulation is only likely to be a success in areas where price signalling can be effective and where consumers can actually exercise choice (for example by not being forced to select the first taxi in a rank).

6.50 There are likely to be implementation problems with partial deregulation. For example if the law requires that all taxis display a standard sample fare for a three mile journey on the outside of the vehicle so that potential passengers can compare prices, taxis can set their tariffs so that the fare for a three mile journey is low but the fare for other journeys is higher. Consumers are therefore still faced with uncompetitive high fares for longer journeys. These problems could be overcome, but at a cost of making the information presented more complex and therefore less easy for consumers to understand.

6.51 For these reasons we do not recommend partial fare deregulation for the UK taxi market.

### **Setting the fare as a maximum**

- 6.52 A third option is for LAs to continue setting fares, but instead of setting a mandatory fare that all taxis must charge, the fare should become a maximum and taxis could choose to charge below this maximum.<sup>132</sup> This will facilitate price competition in the limited number of circumstances where consumers are able to exercise choice. As described above, these include ranks that do not require customers to take the first cab on the rank and areas with a lot of cruising taxis where search costs are lower.
- 6.53 In its 1993 Green Paper on taxi licensing, the DfT concluded that all taxi fares should be set as a maximum rather than a mandatory tariff and that this should be made clear to consumers. The current situation, where not all LAs make it clear in their tariff that the fare is a maximum, is confusing for consumers and is likely to reduce price competition. Only 25 per cent of the LAs that responded to our survey publish a fare tariff that clearly states the metered fare is a maximum – in the other 75 per cent there is no mention of the fact that taxis can charge less than the published tariff.
- 6.54 A potential argument for not allowing taxis to set prices below the published fare is to prevent price competition driving out competition in terms of quality or safety. However evidence from the PHV sector does not support this argument. In the PHV sector prices are not regulated and a wide variety of fare levels and quality levels co-exist, from high-priced chauffeur-driven executive cars to cheaper discount cabs that simply meet the minimum standards required by law. Furthermore, we consider that quality and safety are best controlled directly, through the setting of minimum standards that taxis and drivers must meet.

### **Section 5: conclusion and recommendations**

- 6.55 There are arguments both in favour of and against fare regulation for taxis. The nature of the market means that consumers, particularly vulnerable consumers, derive greater benefit from the existence of fare regulation. Fare regulation protects consumers.

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<sup>132</sup> This is theoretically already possible in the UK except for London and Northern Ireland.

- 6.56 UK LAs should continue to regulate taxi fares. However, there are some measures that can be undertaken to improve competition in the licensed taxi market whilst retaining the benefits to consumers of fare regulation.

#### **Recommendations based on this assessment**

- 6.57 **We recommend that throughout the UK LAs should only set fare tariffs which represent the maximum that can be charged, and not set fixed or minimum fares. It should be made clear to consumers that they are able to negotiate on fares, for example, when ordering a taxi over the telephone. We also recommend that, where possible, LAs actively facilitate more price competition in the market, particularly in the rank and hail sectors of the market.**
- 6.58 It is for LAs to decide how this might occur. One method used in other countries involved taxis displaying their fare in the window or the outside of the cab, either in terms of the price for a standardised trip, or a percentage discount off the metered fare.

## **7 FURTHER ISSUES THAT IMPACT ON THE MARKET**

### **Introduction and summary**

- 7.1 While our study has focused on the impact of quantity, quality and safety and fare regulation in the UK taxi and PHV market we have also come across issues that, while they fall outside this remit are still affected by central or local government regulation and merit discussion.

#### **Cross border hiring**

- 7.2 Taxis can take passengers from within their licensed area to other LAs but cannot accept bookings for passengers or ply for hire outside the area in which they are licensed. PHVs can take passengers from any point to any other providing the PHV driver, vehicle and operator are licensed in the same area. We believe that the current position on cross border hiring adversely affects consumers and drivers to a limited extent but accept that local licensing and enforcement procedures make cross border hiring difficult to implement.
- 7.3 We note the DfT's intention to clarify/simplify the position on PHV cross border hiring via a Regulatory Reform Order (RRO) and suggest that further thought be given to the position of taxis in this area.

#### **Zoning within one licensing authority**

- 7.4 Around five per cent of LAs are divided into two or more licensing zones. These zones exist due to various local authority reorganisations. LAs do not have the power to create or merge zones only (with Secretary of State approval) to remove them completely. Zoning increases the number of cross border hiring problems. It also prevents the supply of LAs in one LA where quantity controls are in operation from responding to changes in demand throughout the day or over time.
- 7.5 We note the proposed DfT RRO which will remove the requirement for LAs to obtain Secretary of State approval to remove zones. We believe that LAs would bring greater clarity to the market if they remove zoning within their districts.

### **Single tier licensing**

- 7.6 While we accept that there are arguments in favour of a single licensing regime, the UK two tier system of taxis and PHVs seems to work well in terms of offering choice to the consumer, particularly disabled and older passengers who require a range of vehicles to suit their individual needs. The current two tier system also allows some competition within the telephone sector and between the street/rank and telephone markets. Therefore we do not advocate moving to single tier licensing at this time. The main drawbacks of the two tier system are that consumers can find it hard to tell the difference between taxis and PHVs and where taxis cannot, or will not, fulfil periods of peak demand PHVs may be tempted to fill the gap by illegally plying for hire. We think that this problem will be reduced with the removal of quantity controls for taxis.

### **Taxi manufacturing/adapting industry**

- 7.7 This industry will be affected by the implementation of Part V of the DDA95. Manufacturers wishing to produce wheelchair accessible vehicles for LAs requiring accessible taxis under DDA95 regulations, will have to meet DfT specifications for such vehicles. As the timetable for DDA95 implementation has slipped there has been an impact on the industry's R&D, and the buying decisions of those wishing to acquire a taxi. We welcome the DfT's recent announcement on the proposals and timetable for implementing the taxi provisions in the DDA95 by 2020 for LAs meeting the DfT's 'first phase' criteria.
- 7.8 The rest of this chapter looks at these issues in more detail. Section 1 looks at existing government policy for taxis, section 2 looks at the cross border hiring issue, section 3 at zoning, section 4 at the arguments for single tier licensing and section 5 at issues affecting taxi vehicle manufacturers and adaptors.

## **Section 1: government policy**

### **The Department for Transport**

#### **1993 Green Paper – Taxis and Private Hire Vehicles**

- 7.9 The last DfT policy document on taxis and PHVs was the 1993 Green Paper, 'Taxis and Private Hire Vehicles'. Although the paper was not a statement of DfT intentions it does give some indication of its views through discussion on a number of topics. These included the view that numerical limits on taxis vehicles should be removed, that there should be no age limits on vehicles, that minimum age and experience for drivers should be standardised across the country, and that zoning within LAs should be removed. On many of the key issues raised in the Green Paper, including the issue of numerical limits on vehicles, little action has been taken following the consultation. The exception is the issue of PHV licensing in London, where significant progress has been made since the Green Paper.
- 7.10 Subsequent documents issued by the DfT have either been more general, in terms of overarching transport policy which do not specifically refer to taxis or PHVs (for example 'Transport 2010 – The 10 Year Plan') or have related specifically to the DDA95.

#### **1998 White Paper - A New Deal for Transport a Better Deal for Everyone**

- 7.11 This White Paper views taxis as an important part of an integrated public transport system, filling the gaps in the broader transport system. LAs are asked to consider taxis in their local transport plans. The other main issue highlighted for LAs is that they should use their taxi and licensing powers to ensure that taxis and PHVs in their district are safe, comfortable, properly insured and available when and where required.

#### **Disability Discrimination Act 1995**

- 7.12 In 1997 the DfT consulted on wheelchair accessible vehicle specifications for implementation of the taxi provisions of DDA95.<sup>133</sup> The DfT has now announced a variation to its 1997 proposals and has confirmed that the implementation period for the DDA95 will run from 2010 to 2020 for those LAs meeting its 'first phase' criteria. LAs not

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<sup>133</sup> Department for Transport: Disability Discrimination Act 1995, The Government's Proposals for Taxis, 1997

meeting this criteria will be issued with voluntary guidance on the vehicle mix and design parameters that they should consider. The DfT will monitor implementation of this guidance before deciding whether to apply the DDA95 taxi accessibility regulations throughout England and Wales. Scotland and Northern Ireland will carry out separate implementation.

## **Regulatory reform**

7.13 The Government's Action Plan 2002 contains a number of proposals to use the streamlined order-making procedure in the Regulatory Reform Act 2001 to amend burdensome primary legislation. The DfT have put forward four actions affecting taxi and PHV regulation (in England and Wales outside London) for completion by Regulatory Reform Order. These are:

- to remove the need for Secretary of State approval for local authority resolutions to amalgamate taxi zones
- to standardise driver and operator licence duration
- to remove local authority powers to restrict taxi licence numbers in their area
- to clarify/simplify the position on PHV hirings across the borders of different licensing authorities.

7.14 As can be seen, the findings of our report agree that these represent areas of concern which we recommend addressing. To date no action has been taken to implement these proposals.

## **Devolved administrations**

7.15 The implementation of DDA95 regulations relating to accessible vehicle specifications is a devolved matter for Scotland and Northern Ireland. They will be holding their own separate consultations on regulation implementation.<sup>134</sup>

7.16 Licensing legislation is also a devolved matter for Scotland and Northern Ireland. Both have recently taken policy initiatives which impact on taxi licensing.

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<sup>134</sup> Subject to the current arrangements during the suspense of devolution in Northern Ireland

## **Scotland**

- 7.17 In 2002 the Scottish Ministers set up an independent task group to review the adequacy of licensing provisions contained in the Civic Government (Scotland) Act 1982 including the provisions relating to taxis and private hire cars (equivalent to PHVs). The Task Group will be reporting to Scottish Ministers shortly.

## **Northern Ireland**

- 7.18 In 2003 the Northern Ireland Office undertook a review of taxi regulation in Northern Ireland. The objective of the review is to examine the principles, mechanisms and practices of the present system. This is with the aim of making recommendations to create an effective and equitable regulatory framework to promote road and public safety and fair competition. Final proposals are expected in late 2003.

## **Section 2: cross border hiring**

- 7.19 A taxi is permitted to take passengers from within the area in which it is licensed to anywhere in the country. Taxis can also, theoretically at least, be hired in the area in which they are licensed to go from anywhere to anywhere in the country. However, the taxi vehicles cannot ply for hire at a rank or in the street outside their own licensing areas. For PHVs the rules are less strict. PHV firms can advertise and supply services anywhere in the country as long as the drivers vehicles and operator are all licensed by the same LA and the operator takes bookings from an office within the area of the LA where it is licensed. It remains unlawful, however, for a PHV operator to take a booking at premises outside the licensed area.
- 7.20 In practice, it is of course more likely that a taxi will be hired to take a passenger to a neighbouring LA, but will not be able to accept a fare that wishes to go from the neighbouring LA into the LA in which the taxi is licensed. Arguably, this has an adverse effect on consumers' freedom to hire taxis and taxis' ability to meet consumer demand.
- 7.21 We recognise that there are strong arguments for restricting the ability of taxis to offer services outside of the area in which they are licensed. Local regulations with regard to quality standards, topographical knowledge and fare levels could be different and enforcement of these conditions by licensing officers would be difficult if cross border hiring was allowed.

- 7.22 Furthermore, there could be problems with drivers abusing the system by registering in an area with low quality standards and then working full time in an area with higher quality standards.
- 7.23 We note the proposal by the DfT in the Government's 2002 Regulatory Reform Action Plan to clarify/simplify the position on PHV hirings across the borders of different LAs. We would like to see further thought given to simplifying the position for taxis as well.

### **Section 3: zoning within one licensing authority**

- 7.24 In around five per cent of LAs the licensing area is divided into two or more zones. These zones exist as a result of various local government reorganisations. If a new authority comprised part of two or more post-reorganisation districts then each of those constituent parts constituted a zone for the purposes of taxi licensing. The LA can overcome this by seeking Secretary of State approval for an extension resolution under the Local Government Act 1972 but the only action that an LA can take is to remove all zones or accept the situation as it is. LAs do not have the power to create zones or to merge individual zones – unless merging zones has the effect of removing all zones.
- 7.25 Since these zones are licensing districts in their own right, they increase the number of cross border problems and again restrict supply from better meeting demand. Some authorities have argued that the removal of zones would mean that drivers would concentrate on those, primarily urban, areas where they can make most profit to the detriment of the, primarily rural, areas where demand is lower. This argument, given an absence of quantity control, does not stand up. Demand in rural areas is unlikely to reduce because zones are removed and if taxis found it was profitable to serve a particular area with zoning, it will be profitable afterwards. If some taxis did migrate to urban areas then others would take their place.
- 7.26 Under current legislation LAs are permitted to remove all licensing zones with approval of the Secretary of State for Transport. This regulation is due to be amended by an RRO which will enable LAs to amalgamate licensing zones without seeking approval from the Secretary of State.<sup>135</sup>

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<sup>135</sup> Cabinet Office: Regulatory Reform. The Government's Action Plan 2002.

- 7.27 We note the intention of the DfT to remove the legislative requirement for LAs to seek permission from the Secretary of State before amalgamating licensing zones. We think that LAs will bring greater clarity to the market if they remove zoning within their districts.

#### **Section 4: Single tier and two tier licensing**

- 7.28 Most of the countries examined during the course of our study do not differentiate between licensing those to undertake traditional taxi rank and hail work and those providing PHV type services booked in advance. The UK has a two tier system, where legislation makes for separate licensing requirements for taxis and PHVs.
- 7.29 We have considered, during the course of this study, whether a single tier licensing system would be appropriate for the UK market. There are advantages to a single licensing system. It is easier for passengers to understand and it can be simpler for LAs to administer and enforce. However, we have concluded that, for the present, the existing two tier system should be retained.
- 7.30 The two tier system can cause difficulties. The public often do not find it easy to tell the difference between taxis and PHVs and many consider them both to be taxis. Around a third of consumers surveyed during the course of unmet demand surveys<sup>136</sup> believe that both taxis and PHVs are allowed to pick up in the streets and at ranks. Of those who said that certain vehicles could not pick up in the street, only 58 per cent could actually demonstrate an understanding of the differences between taxis and PHVs.
- 7.31 In addition, some LAs have a problem with illegal plying for hire, particularly during the late-night peak periods. Sometimes the vehicles involved are licensed PHVs illegally plying for hire. The terms of insurance cover for PHVs mean that any passengers picked up by a PHV in the street without a prior booking arrangement may not be covered by the driver's insurance in the event of an accident. Although it is an offence to ply for hire without a taxi licence under section 45 of the Town Police Clauses Act 1847, police do not often seek to charge the offender. This is, in part, because in the interests of public order the police would rather see the streets cleared than prevent unlicensed plying for hire. Quantity

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<sup>136</sup> Halcrow: Impact of Regulation on Taxi Markets - Consumer Survey (annexe C)

restrictions on the number of taxi vehicle licences can increase the extent of this problem.

- 7.32 However, in other respects the two tier system works well. It allows regulations to be targeted at the parts of the market where they are needed, without distorting the market in sectors where such regulation is unnecessary. Separate regulations for vehicles that only work in the phone-booked sector of the market, where competition and consumer protection issues are less of a problem, allows these vehicles to be subject to only minimal regulation. In contrast, taxis plying on the street and at ranks, where there is more need to protect consumers, are subject to much tighter regulations.
- 7.33 There is a clear difference in the characteristics of the telephone sector and the rank/hail sector. The former is generally served by PHVs although taxis do also operate, and the latter is served exclusively by taxis. The differing characteristics of these two services were the primary reason for the two tier system of taxi licensing that is now in place.
- 7.34 The two tier system also ensures some degree of choice for the consumer, in terms of vehicle type. This is particularly important for disabled and older consumers who will often require a particular type of vehicle, which is not necessarily the traditional, wheelchair accessible black cab. The system also allows some competition and choice on both quality and price in the telephone market and, to a lesser extent, between the rank/hail and telephone markets.
- 7.35 On balance, we believe there are good reasons for maintaining the two tier approach. We therefore do not advocate a move to a single tier licensing system.

## **Section 5: Taxi manufacturers and adaptors**

- 7.36 A number of companies in the UK manufacture and/or supply taxi vehicles. As each LA has different vehicle licensing specifications, most of these models do not meet every authority's requirements. Accordingly most of the manufacturers/suppliers are not able to compete on a national level but instead the boundary of their UK market is set by local vehicle licensing conditions.
- 7.37 The structure of the market for the manufacturing of taxi vehicles has been influenced by wheelchair-accessibility requirements and by vehicles being produced to meet the MCF, set and administered by the Public

Carriage Office. The taxi vehicle supply industry can be split in two groups of companies. One group make purpose built taxis to meet the MCF. These vehicles look like the traditional perception of a 'London Black Cab'. The other group of companies produce vehicles adapted from multi-person vehicles for wheelchair access. These converted vehicles meet European 'M1' safety standards but do not meet all the requirements of the MCF.

- 7.38 Both types of vehicle, whether purpose built or converted, are accessible to those who wish to remain in their wheelchair whilst travelling. As disabled people have a range of different requirements it is important that there is a range of taxi vehicles that are able to meet their varied needs.
- 7.39 The technical specifications of vehicles from both groups of manufacturers will be affected by the implementation of Part V of the DDA95 which will require all taxis to meet certain specifications, including wheelchair accessibility. The DfT is working on the technical specifications that these vehicles will have to adhere to. The DfT has confirmed that the implementation period for the taxi provisions in Part V DDA95 will run from 2010 to 2020 for those LA's meeting its 'first phase' criteria in England and Wales. LAs not meeting these criteria will be issued with voluntary guidance on the vehicle mix and design parameters they should consider applying. The effectiveness of this guidance will be monitored by the DfT before deciding whether DDA95 taxi accessibility regulations should be extended to all LAs in England and Wales. The DfT's proposals will be subject to a full public consultation. DDA95 implementation in Scotland and Northern Ireland is a devolved matter so they will carry out their own separate consultations on taxi accessibility regulations.
- 7.40 We believe that the recent DfT announcement on how it intends to implement the taxi provisions in DDA95 will reduce the uncertainty experienced by the taxi manufacturing industry. This uncertainty has impacted on the manufacturers' long term research and development and the decisions of those wishing to buy a taxi.

7.41 In addition, the implementation of the DDA95 taxi accessibility vehicle specifications will provide a national benchmark for LAs when considering access for disabled travellers. The vehicles currently being manufactured as taxis are able to meet a range of the needs of the disabled traveller but, at present, their utilisation within each LA varies according to local policy and taxi licensing conditions.

## 8 GLOSSARY

### **Cross border hiring**

The act of booking a taxi outside of its licensed area of operation.

### **Disability Discrimination Act 1995 (DDA95)**

Government legislation. Regulations under section 32 in Part V of the DDA95 can set out specifications for a taxi vehicle to ensure the vehicle is accessible for disabled people.

### **Fare regulation**

Regulations that give licensing authorities the power to regulate the fares that licensed taxis charge (but not private hire vehicles). This is done by setting a tariff mandatory (fixed) or maximum fare, or a tariff of maximum and minimum fares.

### **Hailing**

The act by a passenger of flagging down a taxi in the street (private hire vehicles cannot be hailed).

### **Illegal taxi**

A totally unlicensed vehicle being used to ply for hire.

### **Latent demand**

For the purposes of this report we define latent demand as the situation where consumers in areas with quantity controls are discouraged from using taxis by long waiting times and so do even bother to queue for a taxi. This type of demand is hidden because it does not present itself in the form of long queues but it is nonetheless an important source of unmet demand.

### **Licence shortage premium value**

The value that can be obtained when selling a licensed taxi in an area where the licensing authority restricts the quantities of licensed taxis. This value is over and above both the administrative fees charged by licensing authorities that issue and renew the licence and the value of an unlicensed vehicle. The licence shortage premium reflects the value of the licence in areas where quantity restrictions apply.

**Licensing authority (LA)**

A local authority insofar as it is empowered to issue and regulate licences.

**Mandatory fare**

A fare tariff set by LAs for taxis which should always be applied.

**Maximum fare**

A ceiling fare tariff set by LAs for taxis which represents the maximum that can be charged but allows the taxi driver to charge less.

**Metropolitan Conditions of Fitness (MCF)**

Taxis safety and quality requirements devised by the Public Carriage Office for London.

**Operator**

A person who is licensed to operate a private hire business by taking bookings for private hire vehicles.

**Phone booked sector/ pre-booked sector**

A market sector in which vehicles are pre-booked over the phone. This sector includes both private hire vehicles and taxis.

**Plying for hire**

The action of searching for a passenger on the street or at a taxi rank.

**Private hire vehicle (PHV)**

A vehicle which is licensed to carry up to eight passengers who have pre-booked but which is not licensed to ply for hire.

**Quality regulation**

Regulation by LAs of the quality and safety of PHV and taxi owners, drivers, vehicles and in the case of PHVs, operators.

**Quantity regulation**

Regulation by LAs of the number of taxi (but not PHV) vehicle licences in issue within their licensing areas.

**Single tier licensing**

A licensing system in which all vehicles are licensed both to ply for hire and to carry passengers who have pre-booked. In a single tier system there is no distinction between taxis and PHVs.

**Taxi**

A licensed vehicle which can ply for hire and take pre booked fares.

**Taxi proprietor**

A taxi owner.

**Taximeter**

An appliance attached to the tachometer in a taxi or PHV vehicle that is used to calculate the total fare for a journey based upon a fare tariff set by reference to time and/or distance.

**Two tier licensing**

A licensing system in which some vehicles and drivers are licensed only to carry pre-booked passengers and some which are licensed to carry pre-booked passenger and to ply for hire. In the UK this results in two forms of licensed hire vehicle: a taxi and a PHV.

**Unmet demand survey**

A survey which measures patent unmet demand by observing how long passengers wait for taxis. Often the survey will make some attempt to also capture latent demand through consumer surveys but these are unable to establish the true extent of latent demand.

**Wheelchair accessible vehicle**

A vehicle which is designed to be accessible to those needing a wheelchair.

**Zoning**

Where a licensing authority licenses taxis to operate only in a limited are, or zone within the total licensing area. A taxi licensed for one zone cannot lawfully ply for hire outside of that zone.

## Acronyms

**DDA95** - The Disability Discrimination Act 1995

**DfT** - Department for Transport

**LA** - Licensing Authority

**LPG** - Liquid Petroleum Gas

**MCF** - Metropolitan Conditions of Fitness

**NATPHLEO** - National Association of Taxi and Private Hire Licensing and Enforcement Officers

**PCO** - Public Carriage Office

**PHV** - Private hire vehicle

**RADAR** - The Royal Association for Disability and Rehabilitation

**R & D** - Research and development

**TfL** - Transport for London

**TNS** - Taylor Nelson Sofres plc

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