

YORK TAXI ASSOCIATION.

OUR RESPONSE TO

CITY OF YORK COUNCILS REPLY TO THE

GOVERNMENT REGARDING THE

DEREGULATION OF TAXI LICENCES.

# YORK TAXI ASSOCIATION

We enclose our views in regard to "dequantification" of Hackney Licenses issued by City of York Council.

Our report is primarily based upon raw data collected and published by the Office of Fair Trading in 2003. This extensive body of research took fifteen months and £450,000 to prepare and analyse. We have quoted from a wide range of interested and knowledgeable parties including Drivers, Trade Unions (GMB and T&GWU), Trade Bodies (primarily the National Taxi Trades Group), Councillors, Local Authority Officials and the all party Transport Select Committee. All are scathing in their condemnation of the OFT's recommendation that the right of Local Authorities to limit or manage the number of Hackney Cabs in their area, should be withdrawn.

City of York Council is obliged to respond to Central Government and justify its policy. YTA is anxious to contribute to the development of the policy. We have tried to limit our comments to "dequantification" but have strayed into other taxi matters in order to demonstrate that our preferred solution integrates with wider issues, including the environment and employment for example, as well as the Local Transport Plan.

To condense the results of a 787 page report with 12 annexes, into something readily digestible is a demanding task. Much more information is available if required!

Our report follows the format of the Transport Select Committee Report, issued 2004, the comments and conclusions are validated after analysis of the raw data by the Statistical Scrutiny Unit. Other general reasons to retain quantity control are outlined.

We then address specific York issues affected by these proposals.

(YTA acknowledges the inspiration of Gerald Grisdale in compiling this report)

Further information is available from

OFT. The regulation of licensed taxi and PHV services in the UK

House of Commons Transport Committee Sessions 2003 – 2004

National Taxi Trades Group [www.nodereg.com](http://www.nodereg.com)

Jacobs Consultancy Review of OFT Conclusions regarding Quantity Control

York Hackney Carriage Association report written by Gerald Grisdale

#### **Proposition 4**

- *Quantity regulations prevent individuals entering the market to serve consumers.*

#### Truth

Constraints can be justified if they are in consumers' interests, or in the wider interests of society. There is no evidence that fares are higher in authorities where restrictions apply.

#### Conclusion

There is no correlation between the capital cost of licenses and taxi tariffs. Service is better and fares are lower in restricted areas.

#### **Additional Reasons for Retaining Quantity Restrictions.**

- 1) Restriction encourages double driving of vehicles. This means that taxis are available at unsociable hours, whereas in derestricted areas drivers will concentrate on peak earning times and chose to work more sociable hours. This would reduce availability to the customer even if there were more taxis licensed.
- 2) Speaking of Birmingham "The doubling up system did provide a 24 hour service, but (after deregulation) the night service was lacking." Speaking of congestion in Birmingham after deregulation "there was a problem. Too many taxis in the town." Mr Peter Perkins former Chair, National Association of Taxi and Private Hire Enforcement Officers.
- 3) Vehicle and Driver standards drop after deregulation. "Quality must invariably drop because earning power will drop and if you do not earn the same amount of money obviously you have to try to cut corners. Quality of the vehicle must suffer" " We received ample evidence showing that derestriction led to a reduction in driver's income" (Transport Select Committee)
- 4) "Derestriction puts pressure on vehicle quality and requires tight conditions and enforcement of the conditions" (Taxi Licensing Officers surveyed by Halcrow)
- 5) "Licensing Officers from Falkirk, Leicester, Liverpool and South Ribble felt that derestriction had been accompanied by a decrease in vehicle quality." (Transport Select Committee)
- 6) The working time regulations do not apply to self employed taxi drivers. Workers' livelihood in this country is protected by a minimum wage. These protections are clearly difficult to apply directly to the taxi trade. "Provided that enough licenses are issued to meet demand, we consider that it is reasonable to use a limit on vehicle licenses as a way of ensuring acceptable working conditions" (Transport Select Committee)

#### **Specific York Issues**

1) York's unmet demand survey results have never been better. Average customer waiting times are lower than before. The 158 Hackneys meet demand during the day, the Friday night peak has all but disappeared, and Saturday night's waiting times are lower because of staggered leaving times following change to the Licensing Laws. There is no operational reason to increase the number of taxis. "Very often passenger demand in Hackney markets is characterised by a sharp peak that in most cases is NOT POSSIBLE TO SERVE VIA AN INCREASE IN SUPPLY ALONE" Halcrow Fox 2002.



2) Liverpool started with 470 taxis, effectively deregulated but had to re introduce controls when the number rose to 1417. Currently in York there are nearly 700 Licensed PH vehicles that could potentially convert to Hackneys following deregulation. The number of Licensed Hackneys should be the minimum to meet the local demand. This minimises the environmental impact on York in terms of congestion and air quality. The "green" option is to remain with the current number of plates.

3) The recently introduced age limit on Hackneys together with age related emission controls will progressively improve air quality, particularly in inner York. (Only Hackneys, not PHVs, can ply for hire in the City centre) It is logically inconsistent to introduce stricter emission controls on individual Hackneys and then permit uncontrolled expansion of the number of vehicles allowed in the City centre.

4) London, whilst not a typical urban Authority, is effectively dequantified, any one can have a license after passing the knowledge test. Even with 21000 drivers there are major shortages in the evening. The driver/car ratio has dropped from 2.64 (1964) to 1.15 (2003). The evening shortage has been tackled by increasing the night-time premium. If vehicle numbers (licenses) were restricted, double driving would increase and the fare tariff could be linked more to running costs. If the free, derestricted, market cannot be made to work in London without consumer disadvantage, why should deregulation work in York?

5) Statistical work undertaken by Gerald Grisdale on behalf of York Hackney Carriage Association on the OFT figures, showed deregulated areas had 17% fewer cars and 25% fewer drivers than comparable restricted areas. Whilst it is dangerous to extrapolate, applied to York, this would remove 144 cars and over 230 driver's jobs! After deregulation what normally happens is that a proportion of PHs convert to Hackneys and attempt to make a living from the City centre. As the overall Hackney cake remains the same size, more Hackney drivers earn less. As a consequence drivers work longer (less safely), reduce maintenance and cruise/congest/pollute the City in an attempt to generate income.

6) With the migration of cars to the centre, the suburbs are starved of cars (PH mainly). So the viability of PH companies is also affected, with fewer cars to share fixed costs of offices, phones and operators. Deregulation would adversely affect the York economy, reducing employment and raising prices.

7) York can currently accommodate about half of its fleet of 158 Hackneys on public ranks, including spaces in New Earswick and Haxby. Where will any additional cars go? Extra licensed vehicles to serve the same size market is a recipe for traffic disaster. YTA has worked with CoYC for many years to improve rank provision. We, and the highway authorities, understand the difficulties in finding rank space. The situation if anything, is worsening, Duncombe Place is no longer a rank after 10pm. Deregulation would add pressure to an already difficult traffic management problem.

The Transport Select Committee assessed the recommendation of the OFT to deregulate/derestrict/remove quantity control of Hackneys/Taxis by Local Authorities in 2004. This all-party group comprehensively rejected the proposal in a scathing report a copy of which is enclosed as an appendix.

Comments included

“there was no research into the effects of double driving”

“the OFT failed to look properly at the interrelationship between the taxi and PHV markets”

“we are extremely disturbed that the OFT should base its conclusions on unsatisfactory studies”

“it appears to have accepted those findings which accorded with its preconceived conclusion, and failed to consider findings which did not”

“its figures only support its case with considerable *adjustment* (which is never explained)”

“its statistical and survey evidence are flawed”

“Nor does the OFT explain why the taxi and PHV market has been the fastest growing form of transport over the last 25 years, and has grown more than 40% in real terms since 1994, if quantity restrictions have been so detrimental.”

**“Its recommendations on quantity control should be rejected”**

Whilst full detail, statistics and reasoning are found in the appendix, there follows a brief “executive summary”

#### **Proposition 1**

- *Waiting times for taxis are lower in areas where no restrictions take place.*

#### Truth

A straight comparison found waiting times in restricted areas were 30% lower than in unrestricted areas.

#### Conclusion

Restricted areas provide lower waiting times to the travelling public.

#### **Proposition 2**

- *Taxi numbers increase when restrictions are lifted.*

#### Truth

Although taxi numbers increase, the number of PHVs decreases, and the total number of vehicles for hire per head of population is lower in derestricted areas than in restricted ones.

#### Conclusion

Restricted areas provide more vehicles to the travelling public.

#### **Proposition 3**

- *Derestriction, a free market, provides better value for consumers.*

#### Truth

In restricted areas, fares are lower, and the rates of increase are lower.

#### Conclusion

Restricted areas provide a lower cost service to the travelling public.

8) The current method of setting taxi rates (a formula based upon operating costs but excluding any allowance for buying the plate) has worked well, to the benefit of customer, Council and driver, since 1999. Any dilution of drivers' earnings caused by more vehicles or higher operating costs (more unpaid cruising and fewer jobs) will necessitate increased rates (poor value for customer) or drivers to work excessive hours (unsafe for passenger).

9) Current capital prices were influenced by the high levels of local redundancy, and consequent settlements from Nestle, British Sugar etc. Many plates were funded by paying interest only mortgages with historically low interest rates. However five increases in interest rates in the last 15 months will slow down capital price increases. If wholesale deregulation is introduced, owners face the prospect of paying for a worthless asset for 25 years or losing their home.

High capital plate values are an unfortunate by-product of the necessity to limit the number of Hackneys in York. Taxi owners are not making profit from capital values, it is the price we pay to enter the market! Few, if any, current owners had their plate free issued by Council twenty years ago. People who sold their free plate have made a profit and left the industry, but why punish current owners who paid a price to "buy a job." As the Council set taxi tariffs, the capital cost is irrelevant as far as customers are concerned.

10) In buying a plate, owners buy a job or a business. Over time through the course of their efforts, and the ravages of inflation, the business may increase in value. Owners recoup their investment and financial input when leaving. Anyone borrowing £60k will face interest payments of £3.5k pa today. This interest charge greatly exceeds any notional annual increase in capital value. Plate owners could invest in property and achieve similar if not higher returns. Most invest in the taxi trade for job security or to create employment for friends/family, and to make a return! Only with "reasonable" returns will the business afford good staff and higher quality vehicles.

11) Anyone can enter the taxi trade by becoming a PH driver. There is a totally free market, no barrier to entry. With the widespread use of mobile phones the public have ready access to a multitude of operators who are free to set their own competitive rate. PH, with nearly 700 cars compared to 158 Hackneys, is dominant. Hackneys must remain price competitive with PH otherwise lose turnover in today's market. Hackneys are free to ply for hire in the City. In return for this advantage, rates are set by CoYC to prevent exploitation of the unwary or disadvantaged.

There will always be an infinite "waiting list" for a Hackney plate as long as the right to ply for hire is restricted. The existence of the list is not a reason to deregulate. Limitation enhances the York environment at the minimum cost to York's economic and commercial structure. Many on the waiting list in the past have simply sold on their free issued plate for an instant profit. The number of plates is restricted for sound reasons benefiting York citizens, businesses and passengers. If any WA plates are issued, transfer (sale) should only be possible after a minimum of 5 years operation.



## YTA Conclusions.

YTA is the representative body of the Hackney trade of York. Our current membership is 151, both drivers and owners. We believe the policy should be rational and objective, and based upon assessing and fulfilling customer needs, not "demand" for Hackney plates by people on a waiting list/free lucky draw. Unmet demand survey results are a suitable indicator. On this basis no further Hackney provision is required. However a Local Transport Plan requirement is to achieve 17% of the fleet as WA vehicles. We calculate that a total of 9 extra WA vehicles are needed. To achieve 17% within the life time of the LTP would need 3 WA plates per year, beginning in 2008. Although the fleet face extra costs associated with improving vehicle standards, and any extra vehicle means a dilution of earnings, it is YTA's view that managing the planned expansion is the best way forward. This policy would bring some stability to the market and allow owners to invest securely for the comfort and safety of passengers and enhance the air quality of York City centre. For that reason we would also support the licensing of pedicabs, providing this did not reduce ranking space for vehicles. We would welcome the opportunity to discuss all of the above with any interested parties.

**The Regulation of Taxis and Private Hire Vehicle Services in the UK**

**NB: This document only shows what the Transport Select Committee has to say with regard to 'Quantity Control'.**

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**Transport Select Committee's overall conclusions:**

58. The surveys of licensing officers conducted by Halcrow raised questions which appeared to call for further research, the interrelationship between quantity and quality regulation. No further research was undertaken. There was no research into the effects of double driving, the practicality of regulating drivers' hours, or even the costs of new ranks. Most importantly, to our mind, the OFT failed to look properly at the interrelationship between the taxi and the PHV markets, and failed to establish that a shift from PHVs to taxis would benefit all users of hired cars, rather than those who used taxi ranks, or hailed in the street - a minority of users. We are extremely disturbed that the OFT should base its conclusions on unsatisfactory studies, and that, within its evidence, it appears to have accepted those findings which accorded with its preconceived conclusion, and failed to consider findings which did not.

59. The OFT report manifestly does not contain the evidence required to support its only proposal for legislative change: the abolition of quantity regulation. Its figures only support its case with considerable "adjustment" (which is never explained), its statistical and survey evidence are flawed, and it fails to consider the relationship between the taxi and PHV markets. Nor does the OFT explain why the taxi and PHV market has been the fastest growing form of transport over the last 25 years, and has grown by more than 40 per cent in real terms since 1994, if quantity restrictions have been so detrimental. **Its recommendations on quantity control should be rejected.**



# 1 Introduction

1. In November 2003 the Office of Fair Trading published a paper on "The Regulation of licensed taxi and PHV services in the UK".[1] The study made three recommendations:

- **"quantity regulation** - limiting the number of taxis reduces availability and lowers the quality of the 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 Government will respond to the recommendations within 120 days, and has invited a range of interested parties for their views. The Committee decided to examine the study and to hold a hearing to see whether it, too, wished to comment. We focused our examination on taxi and private hire services outside London; the regulatory structure within London differs from those elsewhere, and the recommendations will have most impact outside the metropolis. In the short time available to us we were able to gather a range of witnesses, including representatives from the local licensing authorities, evidence from the taxi industry, the unions and the National Association of Taxi and Private Hire Licensing Enforcement Officers (NATPHLEO), as well as the Office of Fair Trading. Some organisations copied us their responses to the Department for Transport.[2] The Committee Office Scrutiny Unit also examined the statistics on which the OFT report was based, and produced a note which we print as an appendix to our Report. We are grateful to the Unit and to all our witnesses for their help.

## 2. Quantity Regulation

2. The market for hire vehicles in the United Kingdom has been the fastest-growing transport sector over the last 25 years. Turnover has risen 43% in real terms since 1994. Usage is higher among people in lower income groups, and disabled people. The market is divided between licensed taxis (otherwise known as hackney carriages or cabs), which can ply for hire in the streets or at ranks, although they can also be booked over the telephone, and PHVs which can only be pre-booked. There are differences in the regulation of the two sectors. The quality of service and safety standards of both taxis and private hire vehicles can be regulated by the licensing authority (broadly speaking, the district authority in the area). Drivers of taxis and private hire vehicles must both be licensed. The licensing authority may regulate the fares charged by taxis, and may set a limit on the number of licences for taxi *vehicles* (as opposed to taxi *drivers*). It does not have power to set limits on the number of PHVs, or to regulate their fares.

3. The choice of whether or not to impose quantity controls is left to local licensing authorities. If an authority chooses to set controls it must conduct an "unmet demand survey" every two to four years to ensure that there is "no significant demand that is unmet". Currently, 45% of United Kingdom licensing authorities restrict the number of taxi vehicle licences granted. This represents 52% of licensed taxis in the UK outside London. The reason for this imbalance is that most of the local authorities applying quantity controls are urban. Councils may apply quantity controls in ways which lead to controlled expansion of the taxi fleet; for example, Manchester issues a minimum of 20 hackney carriage licenses a year[3]. In addition, it conducts unmet demand surveys every other year,[4] and may issue further licenses in response.

4. When a previous Transport Committee examined taxis and PHVs in 1994 it supported ending of quality control "but with an important qualification" that there should be a proviso allowing a licensing authority to receive a derogation "where it can show that to remove numbers control would cause significant problems of congestion or a risk to the safety of the public"[5]. Our predecessors recognised the need for local conditions to be taken into account. We would go further. As Mr Perkins of the National Association of Taxi and Private Hire Enforcement Officers said:

"a taxi service is a local service and local authorities are in a very good place to assess what the need is and to consult the local population to establish a system that is satisfactory for that particular area."[6]

We would need strong arguments before we were convinced that local authorities' powers to set policy for their area should be overridden.

### Reasons for the abolition of quantity controls

5. The Office of Fair Trading put forward many arguments for the abolition of quantity controls. We will take them in what we consider their order of significance:

- waiting times for taxis are lower in areas where no restrictions take place;
- there are more taxis per head in areas without restrictions;
- consumer choice is reduced in areas with restrictions;
- the service in restricted areas is less safe, as customers may use unlicensed vehicles;
- quantity regulations prevent individuals or businesses entering the market.

## WAITING TIMES IN UNRESTRICTED AND RESTRICTED AREAS

6. We do not find the OFT's evidence at all convincing. As the Report itself says:

"a straight comparison of waiting times in quantity controlled and uncontrolled areas, aimed at providing background on taxi usage, found waiting times in restricted areas was 30% lower than in unrestricted areas."<sup>[7]</sup>

7. The data the OFT used at its Annex C were collected from a variety of sources over an extremely long period. Although most restricted areas are urban, the surveys used included only one city (Bristol) which did not have restrictions. The body doing the work itself notes, "Within the timescale of the project it was not considered feasible to conduct primary research in a sufficiently large number of authorities to create evidence of a robust national picture".<sup>[8]</sup>

8. Not only are there weakness in the data itself, the OFT claims that its data need to be adjusted to take account of the fact that restricted areas are mostly urban. The Scrutiny Unit analysis states, "with such a small number of unrestricted authorities to apply these adjustments to the results would be subject to a wide margin of error."<sup>[9]</sup> The OFT report gives no explanation of the statistical adjustment, and our witnesses from the OFT were also unable to do so to our satisfaction. We were told that most of the difficulties arose because:

"The figures that show 30% less waiting time were largely thrown out by the consumer perceptions in Worcester, which were not backed up by Halcrow's own unmet demand study in that area for waiting time at ranks or the views of the local licensing officers. We did not count that, we did not use that data for the modelling surveys."<sup>[10]</sup>

This looks suspiciously like discarding the inconvenient data. The Scrutiny Unit's analysis of the data in Annex C suggests:

"9. If the simple results are taken at face value then they show that in regulated areas:

- Fares were lower and more consumers thought they represented value for money;
- Mean waiting times were less for each method of obtaining a taxi;
- Satisfaction rates with waiting times were higher for each method of obtaining a taxi".<sup>[11]</sup>

Ultimately our questioning revealed that most of the "adjusted" data presented by the OFT relied on surveys carried out in two licensing authorities, Sheffield and Cambridge, before and after de-restriction.<sup>[12]</sup> We do not consider this is a wide sample, and we are disturbed that the OFT's report implies that its findings rest on a broader statistical base than appears to be the case.

9. If the OFT's figures do indeed rest on two case studies, those studies must be robust and their findings beyond question. In fact, we have profound reservations about the Cambridge and Sheffield surveys. Some of those who submitted evidence to us, or copied us their submission to the Department for Transport, criticised the Sheffield survey<sup>[13]</sup> and the way the OFT used it. We have not had the time to examine these criticisms, but we note that the "actual mean reduction after derestriction in Sheffield was 14 seconds".<sup>[14]</sup>

10. The Cambridge survey simply cannot be relied on. It compared a period before derestriction during term time with a period after derestriction which was out of term. There was a marked decrease in demand. Although witnesses from the council suggested that the decrease had more to do with the reduction in travel from the US after September 11<sup>[15]</sup>, Liverpool suggested that, for them, at least, "It makes a significant impact on incomes to taxi drivers when those students are away on holiday,"<sup>[16]</sup> and Manchester agreed that students had a significant effect on the local economy.<sup>[17]</sup> We cannot believe that there would not be some similar effect in Cambridge, where Halcrow identified the University as one of the main generators of taxi demand.<sup>[18]</sup> Full-time students make up 26% of the working age population of Cambridge compared to a national figure of 7.3%; it is hardly surprising that demand had fallen by nearly half between the two surveys, and that waiting times had decreased. Even if the fall in demand was linked to a downturn in transatlantic travel rather than the effects of term time, a responsible organisation which was faced with survey data taken at such different times would have demanded that the work be redone so that like was compared with like.

11. The OFT also concentrated on waiting times at ranks, or the time taken to hail a cab in the street. In other words, it was concerned with the taxi, rather than the PHV market. This is extremely partial, since the consumer survey undertaken by OXERA for the OFT showed that telephone bookings were the most common means of hiring a vehicle.<sup>[19]</sup> The Transport and General Workers' Union told us that telephone bookings constituted 60 per cent of the market, which was, if anything, a lower estimate than the OXERA figures<sup>[20]</sup>. The Scrutiny Unit analysis of the statistical basis for the report noted:

"The report goes further to show changes in method of hire. In both cities this switched from telephone bookings to hail in the street. It states that this strongly supports the proposition that consumers value and use the greater choice opened up by removing quality controls. While consumers have used their greater choice, it is debateable whether they value this. Satisfaction with telephone bookings fell markedly in Sheffield. An alternate interpretation might be that removing restrictions cut the number of Private Hire Vehicles (PHVs) resulting in a poorer service with the consequence that more customers used other modes."

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<sup>[13]</sup> North Western Taxi Associations response to the OFT Report; Jacobs Consultancy: *Review of OFT Conclusion regarding Quality Controls*, North Western Taxi Association; **York Hackney Carriage Association, Response to the OFT Report on the regulation of Taxi Quantity Control**, esp p13 – 14.



The T& G told us:

"The weakness of the OFT Report is that it fails to analyse the major market, and answer the fundamental questions. How do people decide on what type of service they will use when using the telephone? What has been the impact of de-restriction on this market?"

This is important because we contend that the telephone is the favoured option of many vulnerable groups e.g. the disabled and unaccompanied women."<sup>[21]</sup>

12. When the studies from Halcrow were commissioned the OFT asked them "to look chiefly at the taxi market, but to obviously bear in mind the impact that PHVs may have".<sup>[22]</sup> It is arguable that the OFT and its researchers have simply interpreted their survey data to support a foregone conclusion. When we asked OFT witnesses whether they had surveyed people trying to book by telephone in derestricted areas we were told "We have not come to a conclusion on that".<sup>[23]</sup> Since telephone booking is the predominant method of hire, we find this astounding. In spite of the OFT's claims, there is no real evidence that waiting times are lower in areas without restrictions on the number of vehicle licences they issue, particularly if the telephone booking sector is also taken into account.

## TAXI NUMBERS

13. The OFT claims that taxi numbers increase when restrictions are lifted. We see no reason to doubt this. But taxis do not constitute the whole of the hire vehicle market, and the Report does not adequately discuss the fact that, although taxi numbers increase, the number of private hire vehicles decreases, and that the number of vehicles for hire per head of population is in fact lower in derestricted areas than in restricted ones.

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
All	Taxis	1.22	0.94	1.08
	PHVs	1.01	2.01	1.46
	All vehicles	2.21	2.93	2.53
	Ratio PHVs to Taxis	0.83	2.14	1.35
Urban	Taxis	1.51	1.14	1.23
	PHVs	1.43	2.42	2.17
	All vehicles	2.94	3.52	3.38
	Ratio PHVs to Taxis	0.95	2.12	1.76
Rural	Taxis	1.09	1.00	1.05
	PHVs	0.66	0.93	0.73
	All vehicles	1.71	1.93	1.75
	Ratio PHVs to Taxis	0.61	0.93	0.72
Mixed	Taxis	1.25	0.75	1.01
	PHVs	1.22	1.90	1.52
	All vehicles	2.47	2.65	2.53
	Ratio PHVs to Taxis	0.98	2.53	1.5
London	Taxis	2.88	-	2.88

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.

14. The Report explains this by saying "the reason behind the high 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."<sup>[24]</sup> The report goes on to say that "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."<sup>[25]</sup> It does not examine the fact that its own figures show that the total fleet is lower in areas without restrictions than in areas where restrictions apply.

15. When we questioned the OFT about this, they were evasive in their answers, and repeatedly fell back on the argument that taxi numbers increased and that consumers preferred taxis.<sup>[26]</sup> They also implied that, since taxis were driven round-the-clock, the decline in total numbers did not mean there was a decline in availability.<sup>[27]</sup> But double driving appears to occur primarily in restricted areas, and, as we discuss below, the OFT produced no evidence to show it does not decline after derestriction. Nor did the OFT consider whether the taxi market and the PHV market were directly interchangeable.



16. Our witnesses from Liverpool and Manchester considered that the reduction in PHVs was one of the strongest reasons for opposing deregulation. We were told that while taxis served the city centres, private hire vehicles served residential areas, particularly in deprived areas with low levels of car ownership.[28] As Councillor Swannick of Manchester said:

"the worry is that by moving directly to an unrestricted situation in Manchester we would, in effect, deprive some of the areas which are dependent on private hire vehicles - for the residents - by putting more cabs in the centre. That would benefit the centre but it would not necessarily benefit residential areas." [29]

Although the OFT suggested that derestriction could lead to more cabs plying for hire in suburban areas, they conceded "it may not be sufficient". [30] The OFT's surveys did not consider the interrelationship between the taxi and PHV markets, particularly in cities. No sensible policy can be made without proper information on this.

17. The OFT also failed to consider the relationship between taxi numbers and taxi availability, resting its assertions that the supply increased on seemingly limited survey data. Many of our witnesses drew our attention to the fact that vehicles in areas with restrictions are frequently "double driven", so that two drivers use them. [31] This means that taxis are available even at unsociable hours, whereas in derestricted areas drivers will concentrate on peak hours and choose to work more sociable shifts. This argument was not restricted to those representing the taxi trade: Mr Edwards of Liverpool City Council told us:

"I have a fear that if you increase the number of hackney carriage drivers there will be no surplus to double-shift vehicles, and that may impact on the availability of taxi cabs at peak periods, despite having more vehicles." [32]

18. Since the OFT does not choose to address the issue of double-driving adequately **there is no way we can be certain that lifting restrictions will not reduce the availability of taxis at off-peak hours, as vehicles are no longer shared by two drivers during a single day.**

## REDUCED CHOICE

19. The OFT claims that "if there are few 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." [33] It is true that a shortage of vehicles for hire will restrict consumer choice, but since the report does not address the significant reduction in the overall number of vehicles for hire in areas where quantity controls were lifted, or deal adequately with the effects of derestriction on the telephone market, it is impossible to assert that derestriction would increase consumer choice.

## CONSUMER SAFETY

20. The OFT concentrates on difficulties in clearing the streets after closing time if there is not a large enough supply of taxis, and on the possibility that people will use illegal taxis if there are no legal vehicles available. The problem with this argument is that there will always be peaks when demand outstrips supply. [34] Such peaks may be best dealt with by staggering closing hours, and ensuring an supply of public transport at appropriate times. Many of those who submitted evidence maintained that the use of unlicensed vehicles was a problem most prevalent in London, where, until recently, there was no licensing system for PHVs. [35] We consider the OFT's arguments on this point weak, at best.

## IMPACT ON THE SUPPLY SIDE

21. The OFT is concerned by the fact that quantity controls "constrain individuals or businesses wishing to enter the market to serve consumers" [36]. In our view, such constraints can be justified if they are in consumers' interests, or in the wider interests of society. Current policy allows licensing authorities to decide on policy in the light of local circumstances. There would be cause for concern if it was clear that restrictions on supply result in higher prices, either to cover the cost of taxi licence premiums, or as a response to shortage. The Department for Transport collects and publishes a great deal of information about taxis and private hire vehicles in the United Kingdom. This gives an average of tariffs for each region, and a breakdown of fares by licensing authorities. We note that authorities set tariffs only; they do not consider drivers' earnings, or the average fare in a particular area. The actual level of fares collected (and the cost per mile travelled) may vary greatly depending on the nature of the area in which a particular driver works; even within a standard tariff the driver doing a large number of short city centre journeys will have markedly different earnings than the driver who does longer suburban routes. [37]

22. Even on a cursory examination, it is clear from the Department's figures that there is no evidence that fares are higher in authorities where restrictions on the number of taxis apply and in many cases authorities with restrictions set fares below the average for their areas. The Transport and General Workers' Union analysis of this data found that,

"In the metropolitan areas the average fare in the restricted areas is £6.05 compared with £6.10 in the derestricted areas. In the unitary areas it is £6.45 in restricted areas and £6.24 for derestricted areas. In the district councils it is £6.37 for restricted areas and £6.51 for derestricted areas. The average for England and Wales is £6.34 for restricted areas and £6.46 for derestricted areas." [38]

23. Bizarrely, the OFT produces the following table of the most expensive and least expensive taxi tariffs by licensing authorities with the comment that "there is no obvious geographical pattern to explain the above results". [39]

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[31] Q 46, see also North Western Taxi Associations Response to the OFT Report; Jacobs Consultancy, *Review of OFT Conclusions regarding Quality Controls*, North Western Taxi Association; **York Hackney Carriage Association, Response to the OFT Report on the Regulation of Taxi Quantity Control.**

**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 upon 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).

To us at least, it is clear that the majority of high charging areas are in the South East, and the inexpensive areas are in more depressed or remote parts of the country. The OFT also fails to address the evidence quoted in a footnote to Annex D of its report that one paradoxical result of derestriction might be that tariffs rise:

A sample of 30 restricted and 30 derestricted authorities has been studied using the December 2000 edition of Private Hire and Taxi Monthly. The results are in the table below and show that prices have been increasing at a slightly higher rate in derestricted authorities than in restricted authorities.

	1999	2002	% increase
Restricted	£3.12	£3.80	21.8
Derestricted	£3.17	£3.94	24.3

OFT Report (Annex D), Para 4.29, Footnote 5

24. We note that the tariffs in the city of Cambridge are £7.20 for a 4 mile journey, although the Council told us that the fare increases were not linked to derestriction, the average tariff for such a journey in Cambridgeshire is £6.35, and in Huntingdonshire, the only restricted authority in the area, it is £6.20. It may be that the OFT's failure to examine comparative fares was an oversight; we do not see how policy could be changed without an investigation of whether derestriction affected prices.

### Reasons for imposing quantity controls

25. The Office of Fair Trading puts forward and rejects several possible arguments for quantity controls. The first is that there is no significant unmet demand. The OFT puts forward three reasons to reject this claim.

26. The first is that this argument does not justify quantity controls, but simply demonstrates 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".<sup>[40]</sup> We do not agree: in our view, local authorities should have the right to regulate taxis in their area, unless this is shown to be detrimental.

27. The second and third are linked; the OFT maintains it has evidence that there is considerable unmet demand, and existing unmet demand surveys do not adequately measure the level of real demand.

28. We have set out our opinion of the OFT's "evidence" earlier in this report. Whether or not an unmet demand survey will measure latent demand presumably depends on the design of the survey, and our witnesses suggested that, although surveys were usually "pretty good"<sup>[41]</sup>, surveying techniques could be improved to ensure that latent demand was better measured.<sup>[42]</sup> We would encourage local authorities to ensure that their surveys were designed to do this. Even so, given that the OFT studies do not examine the interrelationship between the taxi and the PHV market and that the statistical basis for their claims that removing quantity controls increases the speed with which cabs can be obtained is weak, we consider the latent demand point irrelevant, since there is no evidence that removing quantity controls would meet it



## MAINTAINING THE QUALITY OF SERVICE

29. The evidence collected from licensing officers by Halcrow was unequivocal: "derestriction puts pressure on vehicle quality and requires tight conditions and enforcement of the conditions".[43]

Mr Conyon, of the National Taxi Association told us:

"I believe that if you take away the controls the quality must invariably drop because the earning power will drop and if you do not earn the same amount of money obviously you have to try and cut corners. I think the quality of the vehicle - and I believe local authorities are trying to enhance their quality stature - must suffer."[44]

We received ample evidence showing that derestriction led to a reduction in drivers' incomes.[45]

30. Nonetheless, the OFT dismisses the argument that quantity controls lead to a higher quality service, on the grounds that "quality specifications and quantity limits are regulated separately".[46] Both the OFT itself and those conducting the underlying studies appear willing to overlook inconvenient evidence suggesting that the two forms of regulation are interdependent. Halcrow surveyed a panel of licensing officers in a "broadly representative panel" of 13 licensing authorities. A single authority[47] was reported as being concerned at the cost of unmet demand surveys. Licensing officers from three authorities with experience of derestriction[48] considered that derestriction had resulted in lower vehicle quality, and another officer[49] "expected that a policy of derestriction would increase the need to monitor vehicle quality"[50]. The Halcrow study concludes that derestriction may reduce the cost of unmet demand surveys but it fails to consider the potential cost to the licensing authority of proper enforcement of a higher number of vehicles, even though it considered that tight enforcement of conditions was necessary.[51] Licensing officers in re-restricted authorities told Halcrow that "this change in policy has allowed for improvements in vehicle standards due to officers having more time to police the trade"[52]; a finding which suggests that quality may suffer in derestricted areas both because of lower earnings and because of a reduction in the resources available for enforcement. Without hard evidence of the comparative costs of quantity and quality regulation, and the interrelationship between them it is impossible to judge whether it is better to regulate the two factors separately or together.

## TO ENSURE AN ADEQUATE SUPPLY OF TAXIS

31. The OFT dismisses the suggestion that derestriction may reduce the number of vehicles available throughout the day. Its opinion appears to rest on its flawed evidence about the effects of derestriction, and the blanket assertion that "in any event it would run counter to common sense for the lifting of quantity controls to result in less supply"[53]. It simply ignores the fact its own figures show a higher total of vehicles for hire per head in restricted authorities than in unrestricted ones, and it does not address the double driving arguments explored earlier. In our view, there would need to be better research before this claim could be dismissed.

## TO PREVENT DRIVERS WORKING LONGER HOURS

32. In fact, the evidence submitted to us presented a more complex argument, namely that licensing limits protect the livelihood of drivers, *and* prevent them having to work excessive hours. The OFT does not address the first point directly. This may be because its concern is with the economic regulation of markets, rather than with the protection of the people who make up those markets. It asserts working hours can be separately regulated, although we were told this would be "very difficult".[54] As the OFT itself concedes "the working time regulations 1998 do not apply to self-employed taxi and PHV drivers".[55]

33. Workers' livelihood in this country is protected by a minimum wage. Similarly the working time regulations limit the hours that can be worked. These protections are clearly difficult to apply directly to the taxi trade. Provided that enough licences are issued to meet demand, we consider that it is reasonable to use a limit on vehicle licences as a way of ensuring acceptable working conditions

## TO PREVENT OVERCROWDING AT RANKS

The OFT simply dismisses the difficulties of providing more ranks to meet taxi supply, asserting that vehicles could simply cruise for hire, or that temporary ranks or marshals could be used at peak times. It could give us no idea of the costs or practicality of the latter two options. There is certainly a cost in establishing new ranks.[56] Mr Perkins of NATPHLEO considered that "knowing the taxi business on Friday and Saturday night, I do not think I would want to be a marshal."[57] He thought that the use of marshals would be impracticable and that, if they were used, ultimately the passenger would pay.[58]

## TO REDUCE CONGESTION

35. The OFT is clearly struck by the fact that "the historical origin of quantity controls lie (sic) in Royal Proclamations by Charles I in the 1630s", designed to protect the livelihood of watermen and reduce congestion. Whether or not quantity restriction has its roots in 17th century proclamations, it has been reaffirmed in much more recent legislation, and was clearly considered by those drawing up the Transport Act 1985. We have not needed to consider the competition between cabs and watermen, but urban congestion can hardly be said to have improved since the 1630s.

36. The OFT claims that "congestion and pollution caused by motor vehicles is a huge problem of which taxis are only a small part"; it produces no evidence about the contribution that cruising taxis would make to this. The Scrutiny Unit analysis notes:

"The impact of congestion is a vital issue, especially when average changes in waiting times tend to be relatively small. A small increase in congestion could easily outweigh the shorter waiting times mentioned in this report. If research was specifically carried out on this issue it should have been published. In any case congestion is such an important factor that the OFT should have commission and published research into its relation to quantity controls."[ 59]



37. Mr Edwards, Licensing Officer of Liverpool City Council, told us that when the authority had no restrictions on licences:

"Merseyside Police were very worried, towards the later stages when the higher numbers were being achieved; they felt it was causing a lot of problems in a restricted city centre, which Liverpool is. It did at the time because there was not sufficient rank provision, which caused bottlenecks and problems within the city centre."<sup>[60]</sup>

Mr Perkins of the National Association of Taxi and Private Hire Licensing Enforcement Officers agreed that councils might wish to reduce licence numbers because too many taxis cause "congestion in the towns and the police are not happy."<sup>[61]</sup> In our view, local authorities are best placed to judge whether quantity controls are a reasonable way to limit congestion.

### **TO PROTECT LICENCE SHORTAGE PREMIUMS**

38. We have examined the issue of licence shortage premiums earlier in this report. We agree that licensing authorities should not consider the need to protect such premiums when they consider whether or not quantity controls are appropriate for their area, and at what level controls should be set. The legislation does not permit them to restrict licences below the level required to meet demand. Although this argument was advanced by some of those submitting evidence to us, there are far stronger arguments in favour of quantity controls than this.

### **Conclusion**

39. The OFT recommends that local authorities should no longer set quantity limits, and that, when time allows, the law should be changed to remove their power to do so. The current system allows local authorities to set policy for their area in the light of local knowledge. The fact that quantity restrictions are applied far more frequently in urban areas than in rural ones suggests that this power is being used appropriately.<sup>[62]</sup> The Transport Act does not give licensing authorities power to impose a limit when there is evidence of unmet demand; "they may do so if, but only if, the person authorised to grant licenses is satisfied that there is no significant demand for the service of hackney carriages... which is unmet."<sup>[63]</sup> Licensing authorities' measurement of demand can be challenged in the courts. In addition, the OFT itself recommends that quality and price regulation remain. This means that the market will always be tightly controlled, and that the removal of restrictions would lead to only limited competition on quality or price.

40. Given this, we would expect far more compelling evidence of market failure than that produced by the OFT before local discretion was removed. Our investigation has convinced us that the Office of Fair Trading study is partial, doctrinaire, sloppily conducted and does not provide sufficient evidence to support any change in the law which reduces local discretion.

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### **List of written evidence**

- TX 01 Memorandum by Liverpool City Council
- TX 02 Memorandum by Cambridge City Council
- TX 03 Memorandum by the Office of Fair Trading
- TX 04 Memorandum by Transport & General Workers Union
- TX 05 Memorandum by The National Private Hire Association
- TX 06 Memorandum by Stuart Robertson Esq.**

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### **List of other papers received**

The following papers have been referred to in the Report but have not been printed. Copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Record Office, House of Lords, and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1 (telephone 020 7219 3074). Hours of inspection are from 9.30 a.m. to 5.00 p.m. on Monday to Fridays

Responses to the Department for Transport Consultation on the Office of Fair Trading Report

- Disabled Persons Transport Advisory Committee
- National Taxi Association
- North Western Taxi Associations (sent by the National Taxi Trades Group)
- Transport & General Workers Union

### **York Hackney Carriage Association**

- Other Papers
- Jacobs Consultancy: Review of OFT Conclusions regarding Quantity Controls