



The Government's Response to the Transport Committee's Report on the Regulation of Taxis and Private Hire Vehicle Services in the UK

Presented to Parliament by the
Secretary of State for Transport
by Command of Her Majesty
May 2004

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THE GOVERNMENT'S RESPONSE TO THE TRANSPORT COMMITTEE'S REPORT ON THE REGULATION OF TAXIS AND PRIVATE HIRE VEHICLE SERVICES IN THE UK

INTRODUCTION

1. The Government welcomes the interest that the Committee has shown in taking evidence and producing two reports on the Office of Fair Trading (OFT)'s study into the regulation of taxis and private hire vehicles in the UK.
2. The Government believes that where markets operate effectively competition can be expected to provide strong incentives for good performance – encouraging firms to improve productivity, to reduce prices and to innovate; whilst rewarding consumers with lower prices, higher quality, and wider choice. The OFT has been empowered to advise where laws and regulations may be preventing markets from operating in the interests of consumers. The Government strongly supports the role of the OFT in conducting analyses of this kind.
3. The Government considers that taxis and private hire vehicles are an integral part of local transport. The Government also considers that it is detrimental to those seeking entry to a market (in this case would-be taxi licence holders) if it is restricted without justification that is apparent to all. Consumers should therefore enjoy the benefits of competition in the taxi and private hire markets.
4. The Government has carefully considered the OFT's study and the representations it has received, including the two reports of the Transport Committee. Consequently, the Government has announced on 18th March an action plan for taxi and private hire vehicle services so that the situation for all stakeholders, including consumers, can be improved.
5. The Government's response in respect of England and Wales to the individual conclusions and recommendations of the two Transport Committee reports is set out below.

RESPONSE TO RECOMMENDATIONS

The Third Report

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. (Paragraph 12)

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. (Paragraph 18)

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. (Paragraph 59)

The Government also has some concerns about the evidence about reduced waiting times, but considers that it would be logical to expect that waiting times would reduce if the number of taxis increased. This does not necessarily mean that waiting times would be lower in derestricted areas at all times of the day.

The Government considers that it is wrong in principle to restrict entry into a market and refuse a taxi licence to those who can meet all the local requirements to hold such a licence. However, the Government also considers that ultimately local authorities remain best placed to determine local transport needs and to make decisions about them in the light of local circumstances. The Government is therefore asking local authorities with quantity controls to reassess their own needs and to publish and justify their reasons if they continue to restrict the number of taxi licences that they issue.

The Government agrees with the OFT that the fact that the taxi market has increased at a fast rate over recent years should not deter consideration of whether or not restricting taxi numbers benefits consumers.

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. (Paragraph 13)

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. (Paragraph 16)

The Government agrees that the inter-relationship between taxis and private hire vehicles might have been considered in more detail. For example, the OFT study gave a national prediction for additional taxis rather than for taxis and private hire vehicles combined. Nor does the study address the time scale over which new private hire vehicle drivers might enter the private hire market to replace at least some of the private hire drivers switching to the taxi sector, or whether any new private hire drivers would be prepared to work unsocial hours. However, the Government notes that the OFT's response to the Third Report provided further evidence on this point.

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. (Paragraph 24)

It is our opinion that the service needs of the public have been given less consideration than the OFT's desire to force down prices. (Paragraph 53)

The Government notes that the Transport Committee clarified their concerns in paragraph 11 of the fifth report. In any event, the Government intends to cover the setting of taxi fares by local licensing authorities in its best practice licensing guidance.

Certainly, if a variety of vehicles was permissible, a disabled person seeking to hail a taxi or hire one from a rank would have no certainty that the vehicle in question was suitably adapted to meet his or her particular needs. As DPTAC points out, the division of the market into taxi and PHV sectors already produces a range of vehicles, and this may be a more appropriate way to ensure that those whose needs cannot be met by accessible taxis have alternatives available. (Paragraph 48)

The OFT's recommendations on quality are vague, and appear designed to discourage licensing authorities from requiring that vehicles meet the Metropolitan Conditions of Fitness. Part of its argument is that these do not necessarily meet the needs of all disabled people. We are astonished it should have made such a case without taking the views of DPTAC into account. It suggests the report was driven by a doctrinaire desire to hold prices down rather than a thorough investigation of disabled people's needs. (Paragraph 49)

The Government intends to consult on and then publish best practice licensing guidance, which will include advice on proportionate quality standards for vehicles to be licensed as taxis and private hire vehicles. This will cover the needs of disabled people in this regard. The Government considers taxis and private hire vehicles are an integral part of local transport provision and that proper account should be taken of them in the Local Transport Plan process.

The Fifth Report

The OFT claims "the relevant basis upon which the decision to derestrict should be made is whether restricting taxi numbers benefits consumers today. Our analysis robustly demonstrates that it does not." (Section 9 of the OFT response to the TSC) That analysis appears to be based on flimsy information relating to waiting times. Even though the OFT denies that it used its studies selectively, it does not address evidence from its own analyses which suggests that fares are lower in restricted areas. It does not look at quality of service issues, even though its own studies show "only the hypothesis that entry regulation has a positive impact on quality of service was supported by the data." (Annex H, paragraph 6.3 of the OFT study) It completely disregards the conclusion of its own consultants that the overall effect on consumer welfare of quantity controls is ambiguous (annex H, table 7.1 of the OFT study). It ignores the experience of local authorities with responsibility for transport services in their areas and does not adequately discuss the experience of authorities which have derestricted their taxi services only to restrict them when experience has shown that derestriction brings disadvantages. If this is the best the OFT can offer in favour of compulsory derestriction we see no argument for change. (Paragraph 13)

At the end of its response to us the OFT says:

"on the issue of increasing taxi and PHV usage in the last 25 years, the increase has been against the background of growing numbers of licensing authorities de-restricting their taxi services. In 1980 around 65 per cent of licensing authorities restricted taxi numbers. Today this figure has dropped to 45 per cent." (Section 9 of the OFT response to the TSC)

The implication is that the increase in usage has been a result of the decrease in restrictions. We would be very interested to see any statistical evidence showing such a link. If the OFT has access to such evidence we are surprised that it was not included in its market study. If it does not, then it should refrain from making unsupported assertions of this nature. (Paragraph 14)

It would have been perfectly possible for the OFT to have taken longer over its study, and to have commissioned properly directed research on which to base its findings, rather than rely on a mass of studies, doubtless all properly done, but done for different reasons over an extended time. We do not believe that making major recommendations on the basis of such evidence is an example of high research standards. In this case, the OFT appears to have confused quantity of data with quality of data. As a result of

the Enterprise Act 2000 the OFT has new powers and freedoms. Its Chairman must ensure that the organisation demonstrates that it is responsible, and that its studies are based on the highest standards. (Paragraph 15)

The Government is not aware of any statistical evidence to the effect that the increase in taxi usage is a result of local authorities derestricting taxi licences. However, the Government considers that the fact that the taxi market has increased over the past 25 years is not reason to preclude consideration of the issue of quantity restrictions.

On the particular issue of restricting taxi licences, the Government considers that local authorities are best placed to judge local needs and circumstances, but where they restrict taxi licence numbers they should be able to justify their policy publicly, and continue to do so on a regular basis. Where such a policy cannot be justified, the Government would expect local authorities to derestrict. The Government itself will review the situation in three years, with a view to further action if it is needed.



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