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## Investigation into UK taxi services

### Issues paper

21 August 2002

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The investigation will examine whether consumers are best served by the regulations that restrict the number of taxi licences available in half of the local authorities in England and Wales and will aim to identify any other competition or consumer welfare issues. This paper outlines the broad characteristics of the market including the regulations that govern taxi services.

This investigation will be carried out by the Markets and Policy Initiatives Division and is expected to be completed by summer 2003.

## The market for licensed taxi services

Taxi services is a large and growing market in the UK. Latest figures show that there are around 70,000 licensed taxis in Britain and 140,000 people driving them (Table 1). Since the mid-1980s the number of licensed taxis has increased at double the rate in England and Wales outside of London than in London.

Table 1: Number of licensed taxis and drivers, 1999

|         | London | England & Wales<br>(outside of London) | Scotland | Total   |
|---------|--------|--|----------|---------|
| Taxis   | 19,200 | 42,100                                 | 7,700    | 69,000  |
| Drivers | 23,300 | 98,200                                 | 20,200   | 141,700 |

Note: This is the total number of licensed taxis of all makes, not just black cabs.

UK residents spent over £2 billion on taxis in 2000.<sup>1</sup> On average, consumers spent £7.54 per taxi ride in London in 1999 compared with £3.49 for the rest of Britain. The average cost per mile was greater in London - £1.68 compared with £1.26.<sup>2</sup>

Taxi use has increased steadily over recent decades. For example, 32 per cent of people use a taxi at least once a month compared with only 16 per cent in the mid-1980s. Women tend to use taxis slightly more than men do. The busiest time of the week for taxis is Saturday nights, reflecting that taxis are most commonly used for going out with friends (business trips are another common reason for using taxis). Not surprisingly, taxis are more commonly used in metropolitan areas than in rural areas.

The group which most commonly uses licensed taxis (on a number of trips per person basis and as a percentage of all trips) is non-car owners. As such, it is people in the lowest income quintile who are the most frequent users of taxis.<sup>3</sup>

## Competition in the market

The taxi market is highly regulated. Fares are set in all areas, as are criteria for being a fit and proper driver and owner. Many local authorities restrict the number of taxi licences available and apply restrictions on the type of vehicle permitted, the age of the vehicle and where taxis can and cannot ply for hire. As a result, competition may be weakened in some local areas.

<sup>1</sup> Office for National Statistics, *Consumer Trends 2000*.

<sup>2</sup> Department of Transport, Local Government and the Regions, *Transport Statistics 2000*

<sup>3</sup> Despite being the most frequent users of taxis, low-income earners tend to travel shorter distances than other groups.

## QUANTITY RESTRICTIONS

While London taxis are not subject to quantity restrictions, outside of the capital the number of taxi plates is restricted in 45 per cent of the local authorities in England and Wales. Restriction levels are set according to whether authorities consider there to be an unmet demand for taxi services (this may be based on a survey of the local population).

## OTHER RESTRICTIONS

The regulations result in restrictions to several other areas of the market. For example, age restrictions on taxicabs exist in a number of authorities alongside roadworthiness tests. Some areas require taxis to be the traditional black cab style.

Although not common throughout the UK, different types of licences exist within some areas. For example, the green and yellow badges in London determine in which areas of the city a driver may ply for hire. A similar system exists in Belfast.

With all of the regulations, the OFT will balance the public interest objective in examining whether consumers are best served by them.

## The regulatory environment

Numerous taxi regulations exist in the UK. In **England and Wales** there are separate regulations for taxi licensing outside of London and in London.

**Outside of London**, the Secretary of State for Transport is responsible for the broad policy (through primary legislation) but local district and borough councils administer the licensing laws.<sup>4</sup> They have a wide range of powers in determining the details of the policy (e.g. in determining and assessing the fitness of drivers and vehicles, unmet local demand and in setting fares). Roughly half of the local licensing authorities explicitly set a limit on the number of taxi licences. However, since 1985 local authorities have been required to demonstrate that there is no unmet demand for taxi services when setting quantity limits. This may be based on surveys of the local population.

**In London**, the Secretary of State for Transport is responsible for the broad policy (through primary legislation). Administration of the licensing laws is the responsibility of Transport for London (part of the Greater London Authority).

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<sup>4</sup> The primary legislation includes broad principles such as where taxi numbers are controlled local authorities must be satisfied that there is no unmet demand, taxi fares can be fixed by local authorities and taxi drivers must accept hirings within a prescribed distance.

Since 1931, there has been no limit on the number of taxis licensed in London. However, both drivers and vehicles are required to be 'fit and proper'. For drivers, this means they must pass 'the knowledge' test, as well as satisfying other legal conditions as to age, character and health. Vehicles must comply with the conditions of fitness set by Transport for London.

Two types of taxi driver licence are available in London – (1) a green badge that allows the driver to operate anywhere within the Metropolitan Police District (and the City of London), and (2) a yellow badge that restricts the driver to specified suburban areas.

In **Scotland** local licensing authorities have powers over all aspects of taxi licensing including specifying taxi design, fixing taxi fares and limiting the number of taxis licensed. The Scottish Executive has reserve powers to impose vehicle design specifications on a licensing authority, but these have not been used. The Scottish Executive has devolved powers to legislate on taxi licensing.

In Edinburgh and Glasgow only purpose-built black cab style taxis are permitted for general hire. However, in Edinburgh an airport licence exists which means only saloon style taxis can pick up from the airport but cannot accept any other hires. Black cabs can take customers to the airport but cannot pick up from the airport. All other areas of Scotland have a saloon or mixed fleet of taxis.

In **Northern Ireland** taxi licensing is centrally controlled by the Department of the Environment (NI) which determines the roadworthiness of vehicles and checks the reputations of drivers and/or owners. Two types of taxi licences are available – (1) 'public hire in Belfast' that allows taxis to operate within a 5-mile radius of the centre of Belfast and (2) 'public hire restricted' that allows taxis to operate anywhere in Northern Ireland apart from the centre of Belfast.

In **all jurisdictions** local taxi regulations typically cover:

- fares
- design specifications for taxis
- the areas in which taxis may operate and the extent drivers are compelled to accept a hire
- where taxi ranks are located
- the standard of road worthiness of the vehicle
- the criteria for being a fit and proper driver and owner.