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TAXI LICENSING POLICY 1985-1991

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ABSTRACT

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This paper reviews the effects of the 1985 Transport Act in the Taxi Industry, drawing on the results of surveys of local authorities in 1988, 1989 and 1991. Overall, we find that the Transport Act has had limited success in achieving its objectives. In restricted markets, a substantial and increasing licence premium is enjoyed by licence holders. In deregulated districts, we see generally lower standards of quality enforcement and severe shortages of rank capacity. We think the use of passenger working time as the sole intention for determining regulatory policy is likely to perpetuate these problems, and thus a review of regulation is required so that a better compromise between competing objectives can be achieved.

KEY-WORDS: Taxis and hire cars; regulation and deregulation; 1985 Transport Act.

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TAXI LICENSING POLICY 1985-1991

1. INTRODUCTION

The purpose of this paper is to review the effects of the Transport Act, 1985, which partially deregulated entry to the hackney carriage ("taxi") industry. It draws on the results of two research projects at the Institute for Transport Studies undertaken over the last five years which were funded by the Science and Engineering Research Council and the Economic and Social Research Council. There are eight sections to the paper. The remainder of this section presents details of the replies to our surveys; we then deal with: licensing policy; vehicle numbers; fares; enforcement; rank designation; and taxis as public transport. We conclude with a summary of the effects of the 1985 Transport Act.

In January 1988, March 1989 and November 1991, we sent questionnaires to 333 district councils in England and Wales, 36 metropolitan councils and the council of the Isles of Scilly. We excluded from the survey Scotland and the North of Ireland where taxis are licensed under different legislation, and also excluded the London boroughs, where taxi licensing is carried out by the Metropolitan Police. From the total of 370, the population further reduced to 365 by the exclusion of two districts whose licensing is undertaken jointly with a neighbouring authority (the two joint schemes are Middlesbrough and Langbaugh, and Gillingham and Rochester) and the three districts which fall wholly within the Metropolitan Police area. 320 councils replied to the first survey, 286 to the second survey and 292 to the third. Only four out of 365 councils did not respond to at least one of the surveys. We are thus happy that the sample is representative, since almost all councils responded.

2. TAXI LICENSING POLICY

In this section, we consider the extent and scope of taxi and hire car licensing, examine the licensing policies pursued and look at policies towards wheelchair accessible vehicles and use of the Metropolitan Conditions of Fitness.

Table 1, below, examines the growth of taxi and hire car licensing since 1980. As can be seen, section 15 of the Transport Act has introduced hackney carriage licensing to 15 per cent of districts for the first time. Along with this, there has been a growth in hire car licensing; less than 60 per cent of districts licensed hire cars in 1980; now, over 95 per cent do, including many of the districts which only introduced any taxi licensing function under section 16. Entry regulation in the taxi sector peaked at about 75 per cent of districts just before the Act; now the figure is 54 per cent. There has been an increase in fares control as well; councils which introduced licensing in 1986 have largely introduced fares controls as well.

Table 1: Growth of licensing

	1980		1985		1988		1991	
	No	%	No	%	No	%	No	%
Hackney licensing	305	82.4	312	84.6	316	99.1	292	100
Hire car licensing	221	59.9	259	70.2	274	86.4	280	95.9
Entry restrictions	249	67.5	274	74.3	179	57.2	157	54.0
Fare regulation	278	75.3	290	78.6	281	88.9	273	93.5
Districts in sample	369	-	369	-	320	-	292	-

From the information supplied by councils, we can determine their taxi licensing policy. More specifically, we can investigate the extent of deregulation by dividing councils into two groups; those which have no numerical limits on entry and those which retain quantity control. Those which retain quantity control fall into two groups; those which have issued no new taxi plates since the Transport Act, and those which have issued some notwithstanding their policy of restricting entry. Districts which are deregulated fall into one of three categories; those which have deregulated since the Transport Act, those which have been deregulated since before the Transport Act, and those which have introduced taxi licensing since the Act and have not imposed a numerical limit. Table 2 below summarises councils' taxi licensing policies.

Table 2: Taxi licensing policy

	1988		1989		1991	
	No	%	No	%	No	%
0 No issue of plates since Act	86	27.2	57	20.1	42	14.4
1 Issued some plates but restrict	95	30.1	104	36.7	115	39.5
2 Deregulated since Act	59	18.7	56	19.8	72	24.7
3 Always deregulated	29	9.2	26	9.2	27	9.3
4 Started lic. since Act - dereg	47	14.9	40	14.1	35	12.0
Total districts in sample	316	100.0	271	100.0	291	100.0
Policy not known	49	-	84	-	74	-
Total licensing districts	365	-	365	-	365	-

From Table 2, it can be seen that 54% of all councils still retain numerical limits on entry. If we consider only councils which regulated taxis (in part or all of their area) before the Act, we can see that out of 256 councils in categories 0 to 3 in 1991, 28% have deregulated as a result of the Act and

61.3 have retained limits. In other words, *for every council which has deregulated entry in line with the aim of the Transport Act, over two have not done.*

We can also look at changes in policy between 1988 and 1989. For the 241 councils for which we have information for both years, five councils had introduced a policy of deregulation, but another five which had previously been deregulated reimposed numerical limits. 16 out of 65 councils which had issued no new plates up to 1988 issued some in 1989; we are aware of other councils which have issued extra plates since then, mostly to vehicles capable of carrying passengers in wheelchairs.

Another indicator of the lack of success of the Transport Act in liberalising entry can be seen from the fact that 31% of councils maintain a waiting list of applicants to whom they would grant licences in the event of extra plates being made available; the average length of the waiting list where it existed was 64. As well as this, 21% of councils have refused, during 1991, to grant a plate to at least one applicant for the purpose of limiting the number of taxis. The mean number of refusals was 10.2. There is also the question of the licence premium. In districts which replied to both surveys, and where a premium existed both times, the average value rose from £8,880 in 1988 to £12,899 in 1991. Allowing for inflation, this is an increase in real terms of 13%. Clearly users of taxis in districts which have not deregulated have not benefitted from the Transport Act; indeed, things have got slightly worse in those areas.

In the 1991 survey, we asked about the compulsory use of wheelchair-accessible (WAC) or purpose-built (MCF) taxis. 6 per cent of authorities already have the full fleet WAC/MCF, 8.2% specify WAC/MCF for new licences and replacement vehicles, and 9.6% specify WAC/MCF for new licences. Although a total of 67 out of 281 authorities have a policy, there are wheelchair accessible vehicles available for hire in 176 districts, with an average 14.3 such vehicles. 35 districts are aiming at full wheelchair accessibility by 2000, and in theory three already have it.

3. VEHICLE NUMBERS

As well as the Transport Act's effects on licensing policy, we can also measure its impact in terms of the number of vehicles licensed. Prior to 1986, the growth rates of fleet sizes for taxis and hire cars were about two per cent per annum and six per cent per annum respectively. We can extrapolate this trend and apply it to the figures we have for fleet sizes in 1986. The base fleet sizes were, on average, 66 for taxis and 119 for private hires. Applying the growth rates which pertained before the Act, we would expect by 1988 to have 68 taxis and 135 hire cars. In fact, as table 3 shows, in 1988 there were on average 76 taxis and 127 hire cars. There are eight more taxis than expected, but eight less hire cars. The total fleet size in 1988 was as expected, it was just the balance between the two sectors which was different. (These figures apply only to districts which licensed taxis before 1986.)

Table 3: Vehicle numbers

	1986	1988	1988 predicted	1989	1991
Mean Hackneys	66	76	68	87	97
Mean Hire Cars	119	127	135	151	186
Mean Total	185	203	203	238	283
Hackneys per Hire Car	0.54	0.60	0.50	0.57	0.52

When we look at the 1989 figures, it seems that the previous one-for-one substitution of taxis for hire cars has ceased; both taxi and hire car figures show very great growth between 1988 and 1989. Since 1989, growth has continued at a higher rate than before the Transport Act, but is now slower than in the years immediately following implementation of the Act. Overall, the number of taxis has increased by 47% and the number of hire cars by 56% since the Transport Act. Although this growth is larger than expected, the balance between the taxi and hire car fleets is largely the same as before, with about one taxi for every two hire cars, and the hire car fleet has grown at a faster rate than the taxi fleet. Since the Transport Act should have had no effect on hire cars, unless it be to cause them to become taxis, it seems possible that other factors, especially a relatively buoyant economy in the mid-to-late 1980s, are responsible for the increase. Indeed, in districts which have been deregulated since before the Transport Act, there has been a much greater growth in fleet size than before the Act. This again suggests that factors other than the liberalising influence of the Transport Act are responsible for the growth.

We can also examine differences in fleet size and growth rates according to licensing policy. Table 4 presents the percentage changes in fleet size over the years 1986 to 1991 according to policy.

Table 4: Changes in fleet size 1986-1991

	0 No issue since Act	1 Issue some but restrict	2 Dereg since Act	3 Dereg before Act	4 Lic intro'd since Act
% change in hackneys	0	41.1	111.1	114.1	203.2
% change in hire cars	133.0	47.9	3.0	29.2	26.4
% change in total fleet	75.7	44.7	41.9	63.6	50.7

There is clearly some variation across districts. Disregarding districts which have introduced licensing since 1985, the greatest growth in hackney numbers has been in districts which have always been deregulated and on whom section 16 of the Transport Act has had no effect, although those which have deregulated since the Act are not far behind. Not surprisingly, the greatest increase in hire cars has been in districts which have issued no new hackney plates; note, though, that even in districts where hackney licences have always been freely available, the hire car sector

has grown by 29%. This suggests that there is still a role for the hire car, and that a one-tier system is not wanted by all the trade.

Looking at overall fleet sizes, we have a very surprising result. *The biggest increase in the total number of vehicles available for hire by the public has been seen in districts which have issued no new hackney plates, and the smallest increase has been in districts which have deregulated since the Transport Act.* It had been anticipated that the Transport Act's liberalising measures would increase the vehicles available in deregulated districts.

4. FARES

There are a number of indicators we can use to determine whether deregulation has had an impact on the regulated hackney fares. Other things being equal, we would expect to find higher fares in districts with more cabs per head of population, since drivers need a higher fare per hiring to compensate for a reduced occupancy rate. The five indicators we tested were: relationship between fare levels and supply (1988 figures); relationship between fare levels and licensing policy (1988 figures); whether there had been a fares increase in the last 12 months and licensing policy (1988 and 1989 figures); relationship between the mean level of fares and licensing policy (1991 figures); and the involvement of the trade in fare-setting procedures (1988 figures).

The fares data were obtained from rate cards supplied by the local authorities. Because of the diversity of the charging structure across districts, and the impossibility of achieving a consistent continuous analysis, three fares were used; the fare for two people making a two mile trip during the day (FARE22), that fare for two people making a four mile trip during the day (FARE24) and the fare for four people making a four mile trip at night (NIGHT). The first analysis was the calculation of correlation coefficients between fare levels and indicators of supply (taxis per head of population (HACSUP), private hire cars per capita (PRIVSUP) and total fleet size per capita (TOTSUP)). Small but significant results were found between FARE24 and PRIVSUP, NIGHT and PRIVSUP, and NIGHT and TOTSUP (all negative) and between FARE24 and HACSUP, and NIGHT and HACSUP (both positive). The former suggests that a large supply of private hires has the effect of keeping the regulated hackney fare down, presumably because of the existence of competition. The positive relationship between fares and supply of taxis seems to bear out the hypothesis that more taxis need a higher fare to sustain the business, and implicitly that deregulation of numbers creates pressure for fares to rise because the higher service quality created does not generate sufficient new business to pay for the extra cabs, meaning that the quality of service elasticity must be less than unit. To examine this further, we looked at the relationship between fares and licensing policy. By grouping the data, it was possible to conduct statistical tests on the hypothesis that there was no relationship between fares level and licensing policy. We found that districts which had issued no new plates were more likely to have low night time fares and less likely to have high night time fares, again suggesting that drivers can compensate for low daytime earnings when there are entry restrictions since they can make money at night with relatively low fares because they are so busy.

Table 5: Fares increase in last 12 months (% in ())

	0 No issue since Act	1 Issue but restricted	2 Dereg since Act	3 Dereg before Act
Yes %	9 (19.6)	21 (23.1)	12 (23.6)	2 (12.5)
No %	37 (80.4)	70 (76.9)	39 (76.4)	14 (87.5)

In 1988, we found little relationship between the incidence of fares increases and licensing policy; possibly things had not settled down. However as Table 5 shows, by 1989, districts which had deregulated since the Transport Act were more likely to have had a fares increase in the preceding twelve months, as were districts which had issued some taxi plates but maintained a policy of entry restriction. The effects are not strong, though, and this evidence is therefore inconclusive.

Another indicator is the mean level of fares according to licensing policy (Table 6). In this case, the means and standard deviations of fares are all broadly similar, apart perhaps from night time fares in districts which have deregulated since the Transport Act; these fares are significantly higher than in other districts.

Table 6: Fares according to licensing policy

	0 No issue since Act	1 Issue but restricted	2 Dereg since Act	3 Dereg before Act
2 miles 2 people Mean sd	£2.28 (0.25)	£2.49 (0.33)	£2.38 (0.27)	£2.12 (0.34)
4 miles 2 people Mean sd	£3.89 (0.44)	£4.22 (0.53)	£4.15 (0.51)	£3.69 (0.64)
night 4 miles Mean sd	£5.46 (1.39)	£5.74 (1.09)	£6.14 (1.20)	£5.33 (1.16)

Fares applicable in November 1991

The final indicator is the involvement of the trade in setting fares. We accept that the trade would not ask for a fares increase which would reduce their revenue. However, if a fares increase would increase revenue, the involvement of the trade in fare-setting procedures is likely to increase the pressure for and likelihood of an increase.

Table 7: Trade involvement in fare-setting

	0 No issue since Act	1 Issue but restricted	2 Dereg since Act	3 Dereg before Act
Yes %	21 (24.4)	16 (18.4)	16 (27.1)	5 (22.7)
No %	65 (75.6)	71 (81.6)	43 (72.9)	17 (77.3)

1988 figures

Most use of trade evidence is made in districts which have deregulated since the Transport Act. Again, though, the above evidence is largely inconclusive. All in all, the fares evidence is not able to support any strong conclusions about the effects of entry deregulation. The lack of effects in districts which have deregulated since the Act may be due to the trade using up the former excess profits represented by the licence premium so that now they break even. In tightly regulated districts, the fares increases may have caused even greater profits, which are reflected in the premium values having increased. As long as authorities continue to set fares and are guided by the criterion of reasonableness, the problems which have occurred in some American cities, which have seen deregulation result in massive price increases, can be avoided. It thus seems that the argument in favour of maintaining quantity restrictions to avoid fares rises has little validity.

5. ENFORCEMENT POLICY AND RESOURCES

Limited minimum quality standards exist throughout the areas covered by the legislation; for example, taxis and hire cars must have at least four doors if they are saloon cars. Some districts, though, specify standards in excess of these minimum requirements; the use of London-style black cabs, for example. The scope of some controls is limited. For example, districts can set a maximum vehicle age as a guideline, but an operator presenting an older vehicle in sufficiently good condition must be allowed to operate it. Authorities were asked to indicate whether they had policies on various aspects of vehicle quality; these are reported in table 8.

On the whole, districts which still limit entry are rather more likely to have higher standards than the minimum, although interestingly those districts which have issued some plates are the most likely to have a policy. While this is only a rough guide, it suggests vehicle quality may be slightly worse in deregulated districts; this is what we would expect, other things being equal, from our *a priori* reasoning.

Table 8: Proportion of councils having quality standards

	0 No issue since Act	1 Issue some but restrict	2 Dereg since Act	3 Dereg before Act
Vehicle type	50.9	50.0	44.6	52.4
Engine size	26.4	38.0	42.9	38.1
Interior space	54.7	66.0	55.4	52.4
Vehicle age	34.0	56.0	42.9	23.8
Livery	34.0	32.0	33.9	23.8
Sample size	53	100	56	21

In addition to information on the attributes of vehicles which are controlled, we also attempted to measure how effectively councils' enforcement policies were implemented and monitored. We did this by checking on councils' policies regarding vehicle testing. There are basically two types of policy which can be adopted. One is to check vehicles regularly, for example requiring owners to present their vehicles for inspection every six months. The other is to conduct random inspections on street so that owners do not know when the test is due and therefore have to maintain the vehicle in good condition at all times. We would argue that the most effective policy is to combine both of

these measures, since there is then no possibility of a rogue car slipping through the net. Table 9 shows that many more districts which restrict entry have a strong enforcement policy, while a number of deregulated districts have no policy at all.

Table 9: Enforcement policy (proportion with policy)

	0 No issue since Act	1 Issue some since Act	2 Dereg since Act	3 Dereg before Act
Regular checks	3.8	4.9	3.7	4.5
Random checks	23.1	19.6	38.9	9.1
Regular and random	71.2	73.5	50.0	50.0
No policy	1.9	2.0	7.4	36.4
Sample size	52	102	54	22

It seems from this that there may be insufficient enforcement in deregulated districts. One measure of this is provided by the number of enforcement staff in each district. Since many enforcement officers have duties other than taxi licensing, this can only be a crude indicator; but we have data on full-time and part-time staffing levels. In districts which still limit entry, there are on average 0.5 full-time enforcement officers and 1.6 part-time enforcement officers (but we do not know how much of their time is spent on taxis). This is in addition to the licensing staff. In deregulated districts, excluding districts which only introduced licensing in 1986, there were 1.2 full-timers and 0.4 part-timers. While part of this difference can be ascribed to the typically smaller fleet sizes in deregulated districts, we have already identified the potential for standards to slip in deregulated districts if vehicle quality is not rigidly enforced, and it would seem desirable for greater resources to be allocated in order to promote a strong enforcement policy.

6. RANK DESIGNATION

An argument advanced before deregulation was the possibility that deregulation would cause overcrowding at taxi ranks, since councils would not be able to increase the supply of rank space at the rate cab numbers were increasing. Rank overspill has long been recognised as a problem; the difficulty is in persuading highway authorities to give up scarce road space to create new taxi ranks. DTp circular 3/85 dismisses the problems that deregulation may cause at taxi ranks by saying simply that councils "should look actively for sites for further ranks" (para. 27). We asked officers to assess the extent of rank overspill in their area; the results are summarised in table 10, along with an estimate of the mean number of rank spaces per taxi.

Districts which have issued no new plates since the Transport Act have more spaces per taxi and find frequent rank overspill less of a problem. For those which have issued some plates, but still restrict entry, the problem is more severe, with one third reporting rank overspill as a frequent occurrence. In districts which have deregulated since the Act, the problem is even worse, and they only have 0.4 spaces per taxi, almost half that of the non-issuers. Clearly rank provision in recently

deregulated districts has not kept pace with the increase in numbers. This is probably the strongest case for retaining numerical limits on entry; but there may be other institutional arrangements may achieve the desired result without distorting the market as much; for example, councils could auction off permits to ply at the most popular ranks and cabs not in possession of a permit would have to operate from the other ranks or rely on radio bookings. This might also be a way of generating trade at currently dormant ranks.

Table 10: Rank overspill and rank provision

		0 No issue since Act	1 Issue some but restrict	2 Dereg since Act	3 Dereg before Act
No overspill	%	38.9	28.4	32.1	63.6
Rare occurrence	%	11.1	6.9	5.4	0
Occasional occurrence	%	29.6	31.4	19.6	4.5
Frequent occurrence	%	20.4	33.3	42.9	31.8
Sample size	%	54	102	56	22
Mean spaces per taxi	%	0.74	0.55	0.4	0.3

7. TAXIS AS PUBLIC TRANSPORT

In this section, we deal with the effects of sections 10 to 12 of the Transport Act, which cover shared taxis and taxibuses. Shared taxis have hardly made any impact. None were operational in 1987, and the Ipswich experiment was a failure, as was the scheme between London railway stations. According to our 1991 survey, eight schemes had been established, of which five were reckoned to work reasonably well, and three not. Taxibuses are more common, although it seems that the number of schemes is declining. TRRL's survey in 1987 showed that, of 99 services which had been registered since January 1986, 44 were still running. Three reasons were identified for the failure of schemes: difficulty in persuading councils to grant hackney plates (although councils can apply a condition that taxibuses may not ply for hire); lack of demand for the services; and public unawareness of the schemes. The 1991 survey showed 47 routes operated by 76 vehicles licensed by 27 authorities; 85% of schemes were reported to be working well. All in all, the Transport Act has had relatively little impact as regards the introduction of innovative services.

8. CONCLUSIONS AND IMPLICATIONS FOR POLICY

The main aim of the sections of the 1985 Transport Act dealing with taxis was to weaken the power of local authorities to control entry to the market. The results of our work indicate that although 85% of authorities have issued (or been prepared to issue) new licences since 1986, over half are still maintaining numerical limits. The premium attached to ownership of a plate (where this exists) increased by 13% in real terms between 1988 and 1991, suggesting that in districts where entry controls remain, the market position of existing licence holders appears to have been strengthened.

The combined growth of taxi and hire car numbers has not been completely uniform, although growth everywhere has exceeded the growth rates over the early 1980s. Clearly, hire cars are regarded as an inferior substitute, since their numbers have risen much faster in districts which maintain controls compared with those which have deregulated since the Act. Even in the latter districts, though, as well as in districts which have always been deregulated, there has been some growth in hire car numbers, suggesting that there is still a role for this type of vehicle.

The evidence on fares is mixed. On the one hand, it appears that there exists the potential for the trade to push up fares in recently derestricted markets; on the other hand, there is some evidence to suggest that fares have also risen in regulated districts.

Regarding vehicle quality enforcement, a lower proportion of authorities which have deregulated since the Act specify a desirable maximum age for vehicles, and a much lower proportion of deregulated districts as a whole have a rigorous policy on road-worthiness checks. Seventeen per cent of deregulated authorities employ no checks at all, compared with less than two per cent of restricted districts.

It has also been suggested that relaxing entry controls might contribute to traffic problems in town centres, since failure to provide additional rank capacity leads to increased cruising. Evidence on the number of rank spaces per hackney indicates that provision in deregulated districts is about half that in restricted districts. It is clear that in some circumstances, these conditions could add to problems of congestion and illegal parking.

We have found little evidence that the Transport Act has been successful in stimulating new types of taxi service, such as shared taxis and taxibuses except in specialised circumstances. Certainly, it seems that a formal shared taxi scheme is unlikely to take off, although impromptu shares late at night will presumably continue.

Overall, we find that the Transport Act has had limited success in achieving its objectives. In restricted markets, a substantial and increasing licence premium is enjoyed by licence holders. In deregulated districts, we see generally lower standards of quality enforcement and severe shortages of rank capacity. There has also been substantial expenditure by restricting districts seeking to maintain their position by commissioning studies of unmet demand. The single criterion of passenger waiting times as a basis for determining regulatory policy is likely to perpetuate these problems. Our findings suggest the need for a comprehensive review of regulation in the taxi industry so that a better compromise between competing objectives can be achieved.

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