

**REPORT OF CORPORATE DIRECTOR CITY DEVELOPMENT  
OFT REPORT "THE REGULATION OF LICENSED TAXI AND PHV SERVICES IN THE UK"  
AND THE GOVERNMENT'S RESPONSE**

**1.0 SUMMARY**

- 1.1 Members are advised of the report from the Office of Fair Trading (OFT) on the impact of existing regulations on the market for licensed taxis, and the Government's response to that report.
- 1.2 Members are also drawn to consider options for the development and sustainability of the licensed taxi and Private Hire trade in the City, that arise from the report and the Government's response.
- 1.3 The trade has been given the opportunity of commenting on the OFT report and the Government's response. Their observations are attached

**2.0 RECOMMENDATIONS**

IT IS RECOMMENDED THAT:

- 2.1 The Committee note the contents of this report, the relevant representations made and considers each of the options identified that arise from the report and the Government's response.
- 2.2 The Committee determines the option(s) the Authority should follow.

**3.0 BACKGROUND**

- 3.1 The OFT report "The regulation of licensed taxi and PHV services in the UK" examines how well the market is working for consumers and considers whether any action is necessary to improve competition in the marketplace. The main focus of the study was on the restrictions the OFT saw as being imposed by many local authorities on the number of taxi licences issued. The study also consider other aspects of licensed taxi regulation including qualitative restrictions on service provision.
- 3.2 Mini-cabs were later introduced into the study because of problems in customers identifying the difference between the them and taxis, the significance of pre-booking of taxis and mini-cabs, the disproportionate number of mini-cabs compared to taxis in the market and the increase in the number of mixed fleets outside of London.
- 3.3 The study recognised a number of issues arising that are summarised in the OFT press notice shown at appendix 1. Many of the points highlighted are experienced in Nottingham and appear to lead to some of the problems facing the City in respect of illegal plying for hire, passenger safety in the late night economy and alleged unmet demand.

3.4 In response, the Government has issued its verdict on how local authorities should subsequently manage their licensed taxis and mini cabs, shown at appendix 2, and have made a number of specific recommendations covering:

- Restrictions on the numbers of taxis
- Maintaining quality in service provision
- Fares
- Taxi Licensing Zones

The OFT report and Government response were discussed at the recent trade meeting and the comments from the trade are reported in the extract of the minutes of that meeting and attached as appendix 3 together with more recent representation dated 5 August 2004 by the Nottingham Licensed Taxi Owners and Drivers Association.

3.5 Further representation has been received from the Transport and General Workers Union on the matter of quantity restrictions. The Union has expressed concern that some councils may make “rash decisions” on derestricting the number of taxi licences issued within their areas, and that taxi numbers should be restricted but that there should be a managed growth of numbers based on local need, and in consultation with the trade and local stakeholders. The representation letter and a briefing paper from the Union on the issue are attached at appendix 4 part of which has already been distributed to members of the Committee.

#### **4.0 PROPOSALS**

4.1 With regard to the OFT's report and the Government's response, the matters listed below are identified as options for action in respect of this Council's management of its licensed taxi and private hire fleet:

##### **Restrictions on the number of taxis**

Option 1 A further survey of unmet demand may be commissioned to follow up on that undertaken in 1999.

Option 2 A quantitative limit is maintained on the number of taxi licenses.

##### **Maintaining Quality in Service Provision**

Option 3 A review of the quality standards applied to licensed vehicles, drivers, owners and operators is undertaken with an aim to revising such standards in line with best practice used elsewhere by other licensing authorities and in the light of the Government's proposed best practice guidance when issued.

Option 4 To maintain the quality and safety standards which both the OFT and Government support, members may choose to support the establishment of an additional enforcement officer in the taxi licensing service.

### **Increasing competition in the industry**

- Option 5 The displaying of the fare structure is prominently displayed on the exterior of Hackney Carriages in such a manner that is easy for the customer to read and understand, enabling the customer to negotiate the fare. Similarly private hire operators be required to display typical fares in their operating bases and give such information at the time of a booking being made again to enable the customer to negotiate the fare.
- Option 6 Operators be encouraged to make special fare offers available such as happy hours, reduced fares for identified categories of passenger etc.

### **Taxi Licensing Zones**

- Option 7 Members confirm that the City is not zoned, which is in line with the OFT's and Government's recommendation.

### **General**

- Option 8 Members may choose to wait for the Government's best practice guidance That is due to be issued for consultation later this year, before committing to any or all of the above options.

## **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The financial implications will be reported at the meeting.

## **6.0 LEGAL IMPLICATIONS**

- 6.1 The legal implications will be reported at the meeting.

## **7.0 EQUAL OPPORTUNITIES IMPLICATIONS**

- 7.1 The Taxi Licensing service will action the option(s) identified in accordance with the corporate Race Equality Scheme to ensure consistency in application and service delivery.

## **8.0 List of background papers other than published works or those disclosing confidential or exempt information**

- 8.1 Letter from the Transport and General Worker's Union dated 8 July 2004.
- 8.2 Letter from the Nottingham Licensed Taxi Owners and Drivers Association dated 5 August 2004.
- 8.3 Hackney Carriage and Private Hire Joint Trade Meeting, extract from the meeting minutes dated Thursday 6 May 2004.

## **9.0 Published documents referred to in compiling this report**

- 9.1 OFT report "The regulation of licensed taxi and PHV services in the UK".

9.2 Government Response to the OFT Report "The regulation of licensed taxi and PHV services in the UK" Written Statement to Parliament 18 March 2004

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***Barry Horne***  
**CORPORATE DIRECTOR**  
**CITY DEVELOPMENT**

Lawrence House, Talbot Street, Nottingham NG1 5NT

Contact Officer: Tim Coulson  
Telephone number: 0115 9156781  
email: [tim.coulson@nottinghamcity.gov.uk](mailto:tim.coulson@nottinghamcity.gov.uk)  
Date: 6 August 2004

## OFT hails more taxis for consumers

### Current restrictions mean longer waiting times and less passenger safety

PN 147/03 11 November 2003

Removing restrictions on the number of licensed taxis on Britain's roads would be good for the public says the OFT in a report published today. The report also confirms that quality and safety controls offer essential protection to the public.

Download [The regulation of licensed taxi and PHV services in the UK](#) (pdf file 538 kb)

See the [taxi services page](#) to download the annexes.

Quantity restrictions, which are currently imposed by 45 per cent of local authorities in the UK, mean that consumers have to wait longer for taxis, have less choice of forms of transport and are less safe.

Long waiting times create a gap in the market which is partly filled by illegal cabs – 1.8 million people used an illegal taxi in 2002. A limited supply of taxis can also add to difficulties faced by the police in dealing with public disorder in town centres late at night.

The OFT conducted a market study into the regulation of licensed taxis – which can ply for trade and be pre-booked – and private hire vehicles (PHVs) – which can be pre-booked only. The study looked at quantity restrictions, quality and safety controls and fare regulation in this £2.2 billion market. The study shows that people in the lowest 20 per cent of incomes use taxis and PHVs the most. Consumers in households without a car make an average of 30 trips per year compared with nine for car-owning households. Taxis and PHVs are also used 67 per cent more often by disabled people than by others.

The OFT recommends that the legislation allowing local authorities to limit the number of taxis in the area should be repealed. In the meantime, authorities that do have quantity restrictions should exercise their power to remove them.

In the OFT case studies of local authorities that have removed quantity restrictions, the supply of taxis increased on average by about 50 per cent. This has led to a dramatic reduction in waiting times at peak times (see [case studies](#)). The OFT estimates that if quantity controls were removed across the country, there would be an additional 15,000 taxis available.

Removal of quantity restrictions would also benefit businesses and individuals wishing to enter the taxi market. There are currently long waiting lists for taxi licences in areas that restrict numbers. There is also evidence that restrictions create an artificial premium on taxi licences when licensed vehicles are sold privately. This acts as a sizeable barrier to entry to the market.

OFT research shows that there is latent extra demand for taxis if more were available.

The OFT also concludes that the quality and safety controls for taxi vehicles and drivers, and PHV vehicles, drivers and operators should remain in place as they offer consumers necessary protection from dangerous drivers and unroadworthy vehicles (see [annexe](#)). However, the way that they are applied can impose unnecessary costs and hinder new entrants to the market.

For example, the taxi vehicle specifications for the Metropolitan Conditions of Fitness, which tightly specify various aspects of taxi vehicle design including step-height and turning circle, were designed historically for the needs of London traffic. However, the conditions have been adopted by other authorities where the requirement may not be necessary. As the taxi models that meet this requirement are much more expensive than standard saloon cars, this imposes additional cost on taxi drivers. The OFT therefore recommends that the Department for Transport works with local authorities to share and implement best practice across different areas so that controls on quality are effective without imposing any unnecessary regulatory burden.

In addition the OFT recommends that local authorities throughout the UK should set maximum fare levels for taxis and allow freedom to set lower fares. A maximum fare cap is needed to protect vulnerable consumers but there could still be scope for taxis to compete on price. Most local authorities already operate a maximum fare system but few passengers are aware that lower prices can be set. Freedom and greater awareness could encourage some price competition between taxis to the benefit of passengers.

Announcing the findings John Vickers, OFT Chairman, said:

Taxis are an important form of transport especially for the disabled and those without cars. Quantity restrictions are against the public interest because they mean fewer taxis on the roads, longer waiting times, less choice and risks to public safety.

'At present, the public benefits from unrestricted supply of good quality taxi services in some parts of the UK but not in others. De-restriction, alongside essential quality controls, would allow all to benefit, and would free up growth of taxi services throughout the UK.'

The Department of Trade and Industry and the Department for Transport now have 120 days to consider and respond to the OFT's findings and recommendations.

**Government Response to the OFT Report “The regulation of licensed taxi and PHV services in the UK”**

**Written Statement to Parliament  
18 March 2004**

We welcomed this Office of Fair Trading (OFT) report which was published on 11<sup>th</sup> November. It provides a useful analysis of the market impact of taxi regulations. The OFT made a number of recommendations to Government, aimed at improving services for consumers. The Government is committed to delivering better transport services and has carefully considered OFT’s contribution to the debate. Taxis and private hire vehicles (PHVs) have an important role to play in the provision of public transport, especially when buses or trains are not available. As well as providing the connecting first or last trips of a journey, making it easier to use public transport, they can provide people in the lowest income groups with access to vital services and enhanced quality of life.

We strongly support the OFT’s role in conducting analyses of this kind. They are useful in considering the economic effects of government regulations.

That is why we have empowered the OFT and other economic regulators under the Enterprise Act 2002 to advise where laws and regulations may create barriers to entry and competition or channel markets in a particular direction, thereby holding back innovation and progress. The Government broadly accepted the conclusions of similar OFT and Competition Commission investigations into the markets for pharmacies, private dentistry and prescription-only veterinary medicines.

In considering OFT’s recommendations on taxis, the Government has consulted stakeholders and taken into account the many representations received. The Government has also taken into account the reports of the Transport Select Committee.

I attach below the Government’s action plan responding to OFT’s recommendations. This action plan relates to England and Wales. Legislation regarding the taxi market is devolved in Scotland and Northern Ireland and they have responded separately.

***Restrictions on the numbers of taxis***

- 1 In England and Wales outside London, local authorities (district/borough councils or unitary authorities) have been able to restrict the number of taxi licences that they issue since at least 1847. In practice, some 45% of authorities do so at present, but the legislation allows them to control numbers only if they are satisfied that there is no significant unmet demand.
- 2 Local authorities with quantity restrictions must be able to justify their policy in the event of an appeal by a taxi licence applicant who has had his application refused on the grounds of quantity controls. The usual method of ascertaining the level of demand is by means of a survey. The legislation does not stipulate any specific frequency for the surveys, but any licensing authority which controlled taxi numbers would want to ensure that its policy was based on up to date and sound information.
- 3 The OFT recommended that local authorities should not retain this power because they considered that such restrictions can:

- a) reduce the availability of taxis
  - b) increase waiting times for consumers
  - c) reduce choice and safety for consumers
  - d) restrict those wanting to set up a taxi business.
- 4 The Government agrees that consumers should enjoy the benefits of competition in the taxi market and considers that it is detrimental to those seeking entry to a market if it is restricted. The Government is therefore strongly encouraging all those local authorities who still maintain quantity restrictions to remove restrictions as soon as possible. Restrictions should only be retained if there is a strong justification that removal of the restrictions would lead to significant consumer detriment as a result of local conditions.
- 5 However, the Government received a significant number of representations expressing the view that ultimately local authorities remain best placed to determine local transport needs and to make the decisions about them in the light of local circumstances. The Government believes that local authorities should be given the opportunity to assess their own needs, in the light of the OFT findings, rather than moving to a legislative solution.
- 6 Nevertheless the Government believes that local authorities should publish and justify their reasons for restricting the number of taxi licences issued. The Government will therefore write shortly to each district/borough council or unitary authority maintaining quantity restrictions and ask them to review by 31<sup>st</sup> March 2005 the local case for such restrictions, and at least every three years thereafter, and make their conclusions available to the public.
- 7 The Government intends that the letter will include guidelines on quantity restrictions, including a review of the level of service available to consumers and consumer choice. The guidelines will cover:
- a) **effective surveys** to measure demand, including latent demand, for taxi services;
  - b) **consultation** with:
    - i) all those working in the market;
    - ii) consumer and passenger (including disabled) groups;
    - iii) groups which represent those passengers with special needs;
    - iv) the police
    - v) a wide range of transport stakeholders e.g. rail/bus/coach providers and traffic managers.
  - c) **publication** of conclusions. This will include an explanation of the particular local circumstances which justify restrictions, what benefits they deliver to consumers and how decisions on numbers have been reached. Authorities will be encouraged to make all the evidence gathered to support the decision-making process available for public scrutiny.
- 8 This is to ensure that decisions to impose restrictions are based upon strong up-to-date evidence of benefits to consumers locally for their retention, and that the decision-making process is transparent and consultative. The Government considers that this would help local authorities with quantity restrictions to justify their policy if they were challenged about refusing to issue a taxi licence in the courts. If restrictions are not shown to be delivering clear benefits to consumers, it is the view of Government that local authorities should remove them.
- 9 The Government itself will review in association with the OFT the extent of quantity controls in three years' time to monitor progress towards the lifting of controls. If necessary, the Government will then



explore further options through the RRO or legislative process if insufficient progress has been made.

- 10 The Local Transport Plan process requires local transport authorities to look holistically at how the transport provision for their area contributes to wider objectives such as economic growth, accessibility and the environment. Taxis and private hire vehicles are an integral part of local transport provision and should be properly taken into account in this process. The Government intends that the next 5-year Local Transport Plans, due to be submitted by authorities in 2005, will include justification of any quantity restrictions in the wider local transport context<sup>1</sup>.
- 11 The Government will also include guidelines on quantity restrictions in its best practice guidance on taxi licensing.

### ***Maintaining quality in service provision***

- 12 The OFT states that there is a strong case for regulating quality and safety both for taxis and PHVs as:
  - a) consumers cannot judge certain standards when getting into a taxi or PHV; and
  - b) taxi services can have a role to play in broader social welfare policy.
- 13 The OFT concludes that quality and safety standards should be maintained and supported by effective enforcement. The Government agrees.
- 14 The OFT recognizes that local authorities should be able to apply quality and safety regulations to suit their needs. In doing this, local authorities should ensure that any quality and safety specifications set do not go beyond what is required to achieve their policy aim. To help them, OFT recommended that the Department for Transport promote and disseminate local best practice in applying quality and safety regulations.
- 15 The Government agrees with OFT that quality standards have an important role to play in securing the safety of the travelling public and ensuring that they are provided with a high level of service. The Government also agrees that these decisions should continue to be made by local authorities, but considers that there is scope for more sharing of best practice, particularly in ensuring proportionality.
- 16 The Government will therefore consult local authorities and other stakeholders in order to develop and publish best practice guidance as OFT recommend. The Government intends that this will comprehensively cover licensing issues, including suitable criteria for licensed vehicles, drivers and PHV operators; driver training; safety; security and other topical issues. The draft guidance will also include sections on quantity controls; fares (see below); enforcement; taxi zones; flexible transport services; and a model taxi/PHV policy for the Local Transport Plan process.
- 17 The aim would be to consult on draft guidance later this year, with a view to publication by the end of the year.

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<sup>1</sup> Those few authorities that will not be required to produce a Local Transport Plan will still be expected to justify their quantity restriction policy if any of the districts in their area have such restrictions.

## Fares

- 18 The OFT recommends that local authorities should not set fixed or minimum fares. They should only set taxi fare tariffs which represent the maximum that can be charged:
- a) to protect vulnerable consumers;
  - b) to address a lack of price competition; and
  - c) to allow consumers to negotiate lower fares in certain situations.
- 19 The Government agrees that where taxi fares are set by local authorities they should be a maximum. As the OFT notes, this is already the case in England and Wales outside London. The Government agrees that the situation in London should be clarified and is therefore grateful that the licensing authority for London has agreed to make clear through secondary measures that fares set in London are a maximum rather than mandatory as soon as it is feasible to do so.
- 20 The Government also notes OFT's advice that consumers should be encouraged to negotiate for lower fares, particularly when booking taxi services over the telephone. In promoting more competition in the market, the Government will ask the OFT to advise on guidance as part of the Government's best practice guidance for local authorities (which will also encompass best practice on quality and quantity controls including unmet demand surveys as outlined above). The guidance will make clear that initiatives to promote greater competition should not jeopardise the safety of consumers or drivers, or create enforcement issues. There is scope to encourage some firms to differentiate their services thereby providing a greater range of choice for consumers (for example by providing a "happy hour" of lower cost journeys for, say, pensioners).

## ***Further issues***

- 21 The OFT also commented on several further issues that concern taxi and phv licensing but which are outside the remit of the report.

## ***Regulatory Reform Action Plan***

- 22 The Government's Regulatory Reform Action Plan published in 2002 contained a number of proposals to use the streamlined order-making procedure in the Regulatory Reform Act 2001 to amend burdensome primary legislation. The plan included four proposals for taxi and PHV legislation in England and Wales outside London, which were subject to Ministerial decision. These were:
- a) removing the requirement for Secretary of State approval of local authority resolutions to amalgamate taxi zones
  - b) standardising driver and operator licence duration
  - c) removing local authority powers to restrict taxi licence numbers in their area
  - d) clarifying/simplifying the position on PHV cross border hirings across the borders of different licensing authorities.
- 23 The OFT considered that these proposals represented areas of concern and recommended that they should be addressed. The issue of restrictions of taxi licences is covered earlier in this action plan.

The Government is taking forward the repeal of the need for the Secretary of State to approve taxi zone amalgamation resolutions in the regulatory reform order that will repeal various local authority consent regimes. The Government will include the issues of driver and operator licence duration and cross border hirings of PHVs (and taxis) for consultation in the draft best practice guidance.

### ***Taxi Licensing Zones***

- 24 The OFT considers that where taxi licensing areas are divided into more than one zone, greater clarity would be brought to the market if local authorities removed the zones and established a single licensing area. The Government agrees and will include a statement to this effect in the draft best practice guidance.

## **HACKNEY CARRIAGE AND PRIVATE HIRE JOINT TRADE MEETING**

### **Extract from the meeting minutes**

*Date of Meeting Thursday 6 May 2004*

#### **OFT Report**

Officers from Taxi Licensing outlined the background to the OFT report and the Government's response. It was recognized that matters focused on 5 areas:

- Current restriction on numbers
- Quality controls for taxis and private hire vehicles
- How to increase competition within the industry
- Adopting best practice on quality and safety standards
- The provision of better information to customers to negotiate fares

The NCCA felt that it was now the time to derestrict the quota on taxi numbers on two main issues, that of the impact on the large number of customers waiting for taxis and to stop the market in the selling on of taxi licences for profit with no benefit to the customer.

The Chair noted that the Government had now put the final decision back into the hands of local Councils. Whilst the Council were waiting for the Government's Action Plan announced as part of the OFT review findings, Nottingham would maintain the current position with its fleet to ensure that the existing high level of quality and safety was assured. The Council would consider a decision on deregulation in the light of the Government's Action Plan and the developing vision for the City. The Council had previously received a survey report on unmet demand in the City and was still mindful of the results of that report. It was felt that there was no need to obtain a further report. The Council will also enquire into the number of taxis operating late at night and at peak times during the day.



AUGUST 2004

NLTODA

TC.FEL/NC

# Nottingham Licensed Taxi

## Owners & Drivers Association

Mr Tim Coulson,  
Service Manager – Food and Licensing,  
Nottingham City Council,  
Lawrence House, Talbot Street,  
Nottingham. NG1 5NT.

41, Sedgley Avenue,  
Sneinton,  
Nottingham.  
Nottinghamshire.  
NG2 4JA.

My Ref : MH-TC/LCR

Thursday 5<sup>th</sup>, August 2004.

Dear Mr Tim Coulson,

**Re : Report to Licensing Committee**

We at NLTODA (Nottingham Licensed Taxi Owners Drivers Association), the trade representatives of the Nottingham City Hackney (Taxi) Carriages, would like you to put forward our views and concerns as part of your report to the Licensing Committee – Reporting on the OFT report and the Government response to the OFT.

We understand that the 3 (three) main areas under the so-called spotlight are :

- 1. Quantity Control    2. Quality Control    3. Fare Regulation**

NLTODA has also, decided to address the same issues as this will be coherent with your report.

### **1. Quantity Control**

Currently, there are 415 (current scheduled limit – not yet reached as people are waiting for their vehicles from last February/March (2003), even though limit was 8 weeks to acquire a vehicle). The trade feels that there are more than enough Taxis, especially in the day-time, and any more will be detrimental to the trade. In addition, any more licences would also, create a scenario of Taxis waiting for a longer time to generate the same income levels. In December 2002, Nottingham City Council and its executive board decided to increase the number of Taxis, from the then limit of 315, by a number of 100 (one hundred). Even though there was little or no justification in the increase, the council went ahead with their policy and all along the trade has asked for a justification in the increase, without response; But now the council needs to act accordingly, i.e. not to 'open' or 'de-limit' without careful and thorough detailed research into its next step and also, to involve the trade – through NLTODA, at all stages, as it is the livelihoods of the Nottingham City Hackney Carriage Drivers that is being placed under the spotlight.

AUGUST 2004

NLTOA

TC-F&amp;L/NCC

## 2. Quality Control

Currently, the Nottingham Hackney trade is one of the newest and youngest (age of taxi), in the England and I would also, say that the average (approx..) age of the Taxis is about 5 (five) years. By reducing the age limit on any future Hackney carriage policy would bring into question this whole notion of Quality and Safety and then there may be an element of risk for the fare paying public. The council needs to maintain its 'New Taxi on a New Licence' policy and thereby, ensure that the livelihoods of the current trade are not damaged. Also, the council needs to ensure any future licence increase(s) are thoroughly researched and, as mentioned before, the trade needs to be consulted, so as to ensure that whatever decision is reached, it is for the best for all concerned.


## 3. Fare Regulation

NLTOA agrees with the government on this issue and believes that Nottingham City Council is in the best position to regulate the fares in the area of Nottingham. Although, a mechanism could be developed for all future Fare Increases to be done on annual basis and without the need for the licensing committee to be involved; But instead the team leader of Taxi Licensing be allowed to authorise any Fare Increase, as long as it was within a pre-set Fare Mechanism.

NLTOA still believes and supports the idea that Nottingham city Council is in the best position to regulate Taxi Fares and Taxi Numbers, so as to ensure Taxi Quality. Even though there is a need for the Enforcement Issue to be resolved, as I am sorry to say, it is very much 'Out of Control' and needs immediate concentration and action.

Thanking you in Anticipation.

Regards,



Mr Mahfuz Hussain –Treasurer NLTOA

Cc Mr Rehmat Khan – Chairman, Mr B.S. Mandora – A. Treasurer

LIC COMM REPI/OFT

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MAHFUZ HUSSAIN



# T & G

## CENTRAL OFFICE

Transport House 128 Theobald's Road Holborn London WC1X 8TN  
Telephone: 020 7611 2500 Facsimile: 020 7611 2555 www.tgwu.org.uk

Our Ref: GS/LG  
Date: 8 July 2004  
Contact: Transport Sector  
Extension: 2582

Taxi Licencing Committee  
Nottingham City Council  
The Guildhall  
Nottingham  
NG1 4BT

Dear Councillor,

**GOVERNMENT REQUEST TO ALL COUNCILS RESTRICTING THE NUMBER  
OF TAXI LICENCES IN ENGLAND AND WALES OUTSIDE LONDON TO  
REVIEW QUANTITY CONTROL POLICIES**

As you will no doubt be aware the Department for Transport following the announcement of a Government Action Plan for taxis (and private hire vehicles), to review your local policy to restrict the number of taxi licences that you grant and to publish the outcome by 31<sup>st</sup> March 2005.

1. Section 37 of the Town Police Clauses Act 1847, as amended by section 16 of the Transport Act 1985, enables district/borough councils or unitary authorities to license taxis within their area and to restrict the number of taxi licences issued only if they are satisfied that there is no significant unmet demand for taxi services in their area.
2. In effect, this means that a council can:
  - issue a taxi licence to any applicant meeting the local application criteria
  - grant at least such number of taxi licences as it considers necessary to ensure that no significant unmet demand remains
  - refuse to grant additional taxi licences provided that it is satisfied that there is no significant unmet demand.

TRANSPORT AND GENERAL WORKERS UNION

General Secretary **Tony Woodley** Deputy General Secretary **Jack Dromey**