



GLA Transport Scrutiny Committee

Cab Review



LCDC Submission

NOVEMBER 2018



Where Now, Guv?

London Cab Drivers Club

November 2018

INTRODUCTION

The London Cab Drivers Club (LCDC) is of the opinion that the very existence of the London taxi service as a viable part of London's public transport system, is in jeopardy. At best, its future role is uncertain. This situation was recognized by the GLA Transport Committee in 2014 with the publication of the 'Future Proof' report in 2014.

The main problem then, and remains, technological innovation that allows private Hire (PH) to compete ever more closely with the taxi service, while skewed regulation places acutely higher regulatory costs on the taxi service over and above that of the PH service.

Transport Committee and Mayoral Action Plans have assisted the continuance of the taxi service but these changes are insufficient to maintain the taxi service in its current form.

There is a common misconception that taxi and PH services openly compete in a free market (a view shared by former Mayor Johnson) and that the taxi service must learn to compete for consumer choice. The reality is that these services do not operate in a free market, but rather a regulated market. Before regulation, taxi services across the world were both chaotic, inefficient and to the detriment of the consumer. This is the very reason for regulation, which is introduced precisely because a free market is failing.

To use the words of the TFL Surface Transport Panel (STP), "the taxi trade is highly regulated", while "generally...TFL takes a light touch approach to the licensing and regulating (of) PH services".

This "light-touch" was never intended as a long-term strategy. Former Mayor, Ken Livingstone, envisaged that PH drivers would eventually qualify as taxi drivers. The purpose of "light-touch" regulation was to prevent a supply failure when regulation was first put in place if driver requirements were set too high. There was an intention to review and replace "light-touch" regulation with a more robust regime in the longer term.

In practice, "light-touch" regulation has been maintained rather than replaced and this failure shares responsibility for the current situation of an over-supply of PH drivers that results in parking



and congestion problems and an inability to earn a decent living without recourse to sometimes dangerously long hours of work and the claiming of in-work benefits as a result.

For a decade following full implementation of PH licensing, this approach was manageable as the two services were ring-fenced into two separate markets of taxis able to ply for hire while Private Hire journeys, according to both the STP and Simon Buggey, architect of the PH Act 1998, are “booked in advance” via an operator centre.

The commonsense meaning of “booked in advance” suggests a reasonable interval of time between the booking and arrival of a PHV and was Mr Buggey’s stated intention when drafting the PH Act. However, the actual wording of the PH Act 1998 uses the term “pre-booked” rather than “advance booked”. This term allows a view to be taken that there is no time element involved in a pre-booking but rather simply meaning a third party between customer and driver.

This distinction is the cause of many of the troubles of the taxi service today. It blurs the distinction and separation of the two markets. It has enabled “disrupters”, by use of technology, to bring PHVs into the on-demand market that had previously been the sole preserve of the taxi service.

The taxi service has now to compete with a huge supply influx into this market and has to do so with higher regulatory costs that are approximately double those imposed on the PH service. While the two services remain differentiated in terms of quality, price will always be the most important



factor in any single market and the taxi service will be unable to compete long-term while the regulatory framework remains so skewed.

The LCDC understands and accepts that the travelling public must be the primary concern of the GLA and TFL. As such, there is no desire to reduce consumer choice or value. However, if the taxi service is to remain a viable option for London's travelling public, change is required in six key inter-linked areas, as follows.

PLYING FOR HIRE

CROSS BORDER HIRING

CLOSER REGULATION OF THE TWO SERVICES

KNOWLEDGE OF LONDON (KOL)

BETTER ENFORCEMENT AND COMPLIANCE

REGULAR IMPACT ASSESSMENTS

1: PLYING FOR HIRE

We understand that the Mayor, TFL and the Transport committee are committed to lobbying central government for a specific interpretation for the meaning of "plying for hire", along with other aspects of the law, such as limiting PH driver numbers. It would be helpful to be informed of any actions and progress to this end, as time is short for the survival of the taxi trade.

FARE CALCULATION

The LCDC believe it should be possible to make some interim changes that are needed immediately. We now have a third tier added to the two-tier system. By use of technology, "App disrupters" are avoiding the spirit of, and possibly breaking the law by obtaining a PH operator licence in order to offer a pseudo-taxi service. The service is becoming generally known as ride-hailing.

Ride-hailing is a taxi service with the exception that customer hailing and driver acceptance is performed electronically, but just as immediately as hailing a taxi on the street and fares are calculated by the same method.

Lord Justice Ouseley¹ found that a Smartphone used for fare calculation cannot legally be called a taximeter but when summing up, commented that the law possibly requires change. Nevertheless, the fare is calculated by adding cost per unit of time/distance to a hiring charge in exactly the same way as a taximeter. This almost certainly leads to overcharging the customer, to some



degree. A taxi driver must pass the Knowledge of London (KOL) in order to ensure that when hailed, he/she is able to take the customer to a destination by optimal route.

PH drivers, since before and after the introduction of GPS, have something of a reputation for taking a less than optimal route. If the fare is pre-determined, the financial burden of taking such a route falls on the driver rather than the customer. If the fare is determined by time and distance, then the financial burden of taking a less than optimal route falls on the customer.

This method of charging by “disrupter Apps” renders it almost impossible to offer accurate estimates of fares in advance, as required by their operator licensing conditions, as route (distance travelled) and traffic conditions (stationary time) are unknown quantities at the time of a booking being made. Rather, they merely offer a lower to upper range estimate that cannot be termed as “accurate”.

The situation is exacerbated by the practice, used by Uber, known as “surge pricing”. This can at times, dramatically increase fare levels. The level of financial penalty above, placed on the customer due to a lack of driver topographical knowledge, is compounded by surge pricing.

Surge pricing also adversely affects fare estimation. Customers that use regular routes may have a reasonable expectation of a fare level that is subsequently increased, possibly by 200-300%.

Surge pricing is used by the operator to assist supply-demand management. However, with the technology at these operators’ disposal, it should not be beyond their ability to organize fleets to match general flows of supply and demand, rather than penalize and confuse passengers and encourage drivers to artificially create surge conditions.

The corollary of the above is that customers may often feel confused, abused and disappointed by the fare calculations of ride-hailing operators.

VEHICLES

All taxis must be accessible to the disabled and the LCDC support this measure. The need for 100% accessibility is required to give the disabled, equal opportunity of instantly hiring a taxi. This would otherwise be discriminatory. As a result, all London taxis are not only wheelchair accessible, but also offer the disabled other features such as a “low step”, hearing loop for passengers, visual aids on doors and grab handles and swivel seats.

The 2014 Future Proof (FP) report recommended that PH operators’ fleets be 25% accessible by 2015 but this remains at less than 1%². The reason for this failure is not a matter of finance but rather a lack of will. There are several Wheelchair Accessible vehicles (WAV) that have been in use by PH up and down the country for more than a decade. The vehicle of choice for Uber drivers is the Toyota Prius and one of the most popular Multi People Vehicles (MPV) for use as a PHV in London is the Vauxall Zafira.

A typical example of a WAV PHV is the Peugeot Partner and at a price new of £18,695, is 14% less than the Zafira and 22% less than the Prius.³ Thus, it is patently clear that operators will not increase their accessible fleet voluntarily.



While a 25% WAV contingent of the fleet is a reasonable figure for a traditional PH operator, who will have the ability to know in advance where and when these vehicles are required, this proportion is not adequate for a “ride-hailing” service.

It is illogical to require street hailed taxis to be 100% WAV to avoid discrimination against, and allow access to the disabled and at the same time only require the instantly but electronically hailed PHV to only be >1% accessible to avoid such discrimination. Both should be subject to the same proportions. Currently, a disabled customer has a 1:800 chance of hiring an Uber “ride” as compared to an able bodied customer. This is inherently unfair to the disabled customer, whom should have equal opportunity. Anything less is discriminatory and only a 100% WAV fleet can ensure equal opportunity to the disabled.

DRIVERS

There are problems with the driving standards of PH drivers using apps. General driving standards are much poorer for PH drivers than recreational drivers, far less those of the taxi driver. Some, but not all, of the associated problems could be improved by the requirement of an advanced driving test.

However, additional training is required by the ride-hail driver due to the method of contact with passengers. A recent paper from two USA universities⁴ have concluded that the introduction of “ride-sharing” to a city increases fatal car accidents by 3.5%.



At any time of day and night in Central London, these drivers can be seen to pick-up and set down on pedestrian crossings or in positions where they obstruct or completely bring traffic to a standstill. It is common in heavy traffic for such drivers to deliberately stop the flow of traffic rather than pull to the side to pick up or set down and then have to get back into the traffic.



This lack of respect for the law and other road users is no doubt partly responsible for another recent American study⁵ that found that more than half of Uber and Lyft rides would otherwise have been made on foot, bicycle or public transport. Schaller found that for every vehicle mile reduced by these two ride hailing services, 2.8 miles were added.

Ride-hail passengers have some culpability in this. The customer often waits for their vehicle in inappropriate places. It is common to see passengers waiting at the crossing point of pedestrian crossings, at traffic lights, street corners and at points in a road where other traffic is unable to pass a stopped vehicle.

The driver will not visually identify his/her passenger until only a few metres from the passenger and reacts by stopping immediately without thought to any problems this may cause to other road users.

It is necessary to train and educate ride-hail drivers as to where it is, and is not, appropriate to pick up and set down as many of them are clearly unable to understand this. They, and the operators, have a duty in turn to educate customers and make clear that PHVs will not pick up and set down on inappropriate road space.

¹ TfL v Uber; 16 October 2015.

² As at 24 September 2018, there were 87,576 licensed PHVs, of which 552 were wheelchair accessible.

³ Vehicle prices as at 1 October 2018.

⁴ Ubernomics; John Barrios, Chicago University; Yael Hochberg and Hanyi Yi, Rice University.

⁵ Bruce Schaller, Transport consultant.

REQUIRED ACTION

ACTION 1: FARES

The currently requirement on PH operators to supply an exact of accurate estimate of a fare should be applied rigidly. Offering a range between two points, unless very narrow, cannot be regarded as an accurate estimate and the practice should be outlawed.

Similarly, “surge pricing” is both confusing and not in the interest of the passenger and should be banned.

ACTION 2: PHVs

There are a wide range of vehicles available and currently being used around the UK as taxis and PHVs that are wheel-chair accessible (WAV). Traditional PH operations should compulsorily make



25% of fleets WAV. For operators such as Uber, that offer ride-hailing services as opposed to simply placing an advance booking by app, the requirement should be a 100% WAV fleet.

ACTION 3: DRIVERS

Ride-hail drivers should be required to pass an advanced driving test and receive training on where and how to pick up and set down passengers.

Drivers of PHVs equipped for ride-hailing services should be licensed separately to both taxi and PH drivers. There should be a requirement to obtain a significantly higher degree of topographical knowledge as a licensing requirement, over and above that required for traditional advance booked operations. Perhaps, a level that meets the written test taxi drivers have to pass as an interim stage of the KOL.

This could produce additional benefits. The Mayor's Action Plan looks to increasing vocational training of the PH driver. If TFL succeed in their attempt to gain vocational accreditation for the KOL this would certainly achieve that. Possibly the attainment of a ride-hailing licence could allow the holder to enter the KOL examination process at an interim stage. This would also bolster an ageing taxi driver population and encourage new entrants to the KOL, which is in desperate need of new applicants.

2: CROSS BORDER HIRING

As the Mayor's Action Plan contends, it cannot be correct for a driver or operator to obtain a licence in one licensing area with the intention of operating exclusively or predominantly in another licensing area. However, The Deregulation Act, 2015 unfortunately allows this.

Current cross border hiring makes it extremely difficult for licensing authorities to operate their enforcement and compliance policies as they only have authority over drivers licensed in their own area.

This can have extremely dangerous consequences for the public far beyond that applying to passengers. The recent Jay¹ and Casey² reviews pointed to the cases of sexual abuse in Rotherham as examples of the danger and failings of cross border hiring.

Uber have exacerbated the problems as cross border hiring is a fundamental part of their operating procedure and they have often used the Deregulation Act to circumvent local licensing conditions. For example, when Uber were refused a licence by the Sheffield licensing authority, they encouraged Sheffield drivers to obtain TfL PH licenses and then incentivised drivers to accept fares within the Sheffield authority.

A converse example was where recently two Southend licensed PH drivers were refused licenses as they were not deemed to be fit and proper persons. The intention was to prevent these drivers from operating in Southend. However, they obtained licenses from TfL, subscribed to the Uber platform and continued working wholly in Southend.



TfL are currently attempting to obtain a ruling that hiring must begin and/or end within a licensing authority and this must be applauded. Passenger safety and the ability of a licensing authority to control taxi and PH drivers, vehicles and operators in their area should take precedence over free trade and market forces.

¹ Independent Inquiry Into Child Sexual Exploitation in Rotherham (1997-2013); Alexis Jay, OBE.

² The Casey Review; A Review Into Opportunities and Integration; Dame Louise Casey.

ACTION: 4

The Mayor and TfL should continue and redouble efforts to apply lobby pressure on government to address this problem and also to regularly inform the taxi trade of any such lobbying that takes place.

3: CLOSER REGULATION OF THE TWO SERVICES

VEHICLES

TfL and The Mayor must acknowledge that regulation equals cost. Each new regulation carries a cost burden. Currently, regulation is too skewed and results in an unfair cost burden on the taxi service against its competitor, the PH service, within the same marketplace.

Despite the light regulation of PHVs, the regulator has continued to increase the regulatory requirements of a taxi. The necessity of the regulations applied to the taxi is not disputed, only the logic that two services within the same marketplace and regulated by the same authority, can be subject to such disparate regulation.

The price of the current taxi, the TXe (the only model available for licensing as a taxi), has a price of £63,099 gross. Currently there are grants available from central government/TfL of £7,500 for a limited period. To put the increase in the capital cost of a new taxi in perspective, it can be viewed in relation to the minimum taxi fare as follows:

In 1998, the cost of a new, top of the range Fairway was £26,250; the minimum fare was £2.20. Thus, it required 11,932 minimum fares to recoup the capital cost of a taxi. In 2018, the cost a new, basic TXe is £55,599 (net of available grants); the minimum fare is £3.00. Thus, it requires 18,533 minimum fares to recoup the capital cost. Irrespective of inflation, the regulator has effectively increased the cost of a vehicle, in terms of minimum fares to recoup capital by 55%.

These factors contribute highly to the current shrinking taxi fleet. The fleet has recently fallen below 23,000 taxis, as recently stated by Mayor Khan.



The decision to make all new taxis conform to lower emission limits from 1 January 2018 was taken before it was known if a suitable vehicle would be available as there were none in the marketplace. TFL considered there would be five suitable vehicles available on the due date. Ten months after that date, there is only one vehicle that meets the ZEC requirement. As a result, taxi drivers are hostage to a monopoly supplier.

PHVs are not to be compelled to adhere to similar emission limits until 2023, some five years later, even though there was a range of compliant vehicles available for use as PHVs at the time the decision on taxis was taken.

While the LCDC accept the need for the ZEC, it appears unreasonable under the circumstances for the taxis to have to comply five years earlier than PHVs and before the vehicles and infrastructure is available and completed.

The cost disparity between taxi and PHVs as a result of this skewed application is huge. As noted in section 1 (Plying for Hire), the current price of a Prius in use as a PHV is £24,000. The cost of a TXe ZEC taxi is currently £55,599 after grants are deducted. This still places the cost of a taxi at 230% of the cost of a PHV.

In addition to the purchase price, loan interest, etc ,will be proportionally higher for the taxi driver. The total cost of purchasing the new TXe taxi on a lease/buy deal will cost the driver £67,830 over a five year lease/purchase arrangement, after deduction of £7,500 in grants (£75,330 total cost).

Currently, these prices include free servicing for three years. However, the price is about to increase by 2% (£1262) and the free servicing is to be discontinued. Additionally, suppliers are refusing to accept part-exchange of old models. This will likely force secondhand prices lower.

As outlined above (1: plying for Hire), it is difficult to reconcile the disparities between licensing conditions for taxis and PHVs and in particular with regard to disabled access and the use of metered fares. The differing vehicle licensing requirements should be very much closer to parity than they currently are.

INSURANCE

With regard to insurance, a taxi must have permanent Hire and Reward (H&R) insurance at all times and must display an insurance certificate within the vehicle. The current requirement of a PHV is that the driver has H&R insurance when “working”, according to Helen Chapman of TfL¹. Drivers of both taxis and PHVs are able to use their vehicles for domestic and pleasure purposes. Thus, it appears anomalous that taxis should have continuous H&R while PHVs only while operating as PHVs. Not only that, but “on-off” insurance is open to abuse. The H&R insurance on a PHV should be at all times, as with taxis.

There are numerous incidents of PH drivers not having appropriate H&R insurance. Only very recently (October 2018), a PH driver was convicted at Basildon courts for this offence. For this reason, a fleet H&R insurance scheme would appear to be more appropriate. However, there are legal difficulties in arranging such policies. Nevertheless, operators could be compelled to hold “Contingent Liability” insurance. Such an insurance policy would cover passengers and third parties in the event of a driver failing to hold proper insurance cover in the event of a claim. In this



way, passengers would be covered by insurance despite H&R insurance not covering a vehicle at any time.

There are similar licensing requirement disparities with regard to drivers. These are discussed below in "4: KOL".

¹ Helen Chapman giving evidence at the GLA Transport Committee meeting, 13 November 2018.

ACTION 5

PHVs should be covered by H&R insurance at all times.

ACTION 6

PH operators should hold a fleet Contingent Liability Policy as a licensing condition.

ACTION 7

Prior to implementation of any new regulations placed on taxis that are not similarly placed on PHVs, a study be undertaken to determine the additional cost to the taxi service. Once such cost is determined, to evaluate the competitive effect on the taxi service.

Any such study should be disseminated publicly and put to public consultation.

4: KNOWLEDGE OF LONDON (KOL)

The demographic of the taxi driver demonstrates an ageing population. Almost a quarter of licence holders are 60+ years old. The driver population is reducing month on month and has been doing so for a considerable length of time, albeit at a slow rate. Nevertheless, the taxi driver population has reduced by more than 6% over the last seven years.

At the same time, new applicants to the KOL have shrunk at an alarming rate and at their lowest level in more than a generation, according to Mayor Khan. Figures for the whole of the last twelve months are lower than some single months prior to the introduction of App technology. On a recent LCDC visit to the new TfL examination centre (19 November 2018), there were examiners sitting in empty offices and no applicants in the waiting area at 11.45am, traditionally a very busy time of day.

One of the largest "knowledge Schools" has recently closed its doors and two more have been forced to amalgamate through lack of student numbers.

In short, without change there will be a reduction of drivers in the medium term that may result in an under supply if there is no change.



These problems have been taken on board by TFL and The Mayor but so far any proposed remedies are nothing more than treating the secondary effects of the main problem. This is a question of simple economics. There is no current value in undertaking the training to pass the KOL examinations.

A PH driver will be working within three months as a pseudo taxi driver operating a ride hailing service. The KOL student will not be driving a taxi until three years later. Even if the taxi driver is able to earn 20% more than the PH ride hail driver, it will take eighteen years before catching up to the total earnings of the PH driver. Before this, there are claims that taxis will be driverless.

In short, there are no logical, economic grounds for a prospective applicant to choose the KOL over a PH licence.

The topographical knowledge of the London taxi driver is both well-known and well-respected but



this only represents a small part of the value of the KOL qualification. The KOL creates a steady and reliable workforce to serve the travelling public.

The licence cannot be sold or traded and thus it's only value is to the driver holding it. Its value lies in the monetary and intellectual capital invested by the driver and the opportunity it affords to make a living by plying for hire. This has the effect of making the taxi driver regulation compliant with very little need for enforcement due to the high value placed on the licence by the driver. This value also means that drivers entering the trade do so in the expectation of a life-long career and engenders pride in the job.

By comparison, a PH driver will more often than not view the job as a transitory occupation. Almost half of drivers do not renew a first licence. It is not coincidental that a PH driver licence is virtually valueless. Similarly to the taxi driver, the PH licence cannot be sold or traded. As few resources are spent in obtaining the licence and virtually no entry barriers exist, the holder places



very little value on the licence. This is a likely explanation for the proportionately greater regulation transgressions by PH drivers and greater enforcement costs.

The original “light-touch” regulation of PH drivers was never intended to be permanent. The service had been operating unlicensed for nearly four decades prior to licensing. There had been a concern that an under-supply may have resulted if the initial licensing requirements were too onerous in 1998.

This “light-touch” was intended at a transition position. Mayor Livingstone, who oversaw the introduction of PH licensing, had the opinion that in the longer term, that drivers would view a PH licence as a stepping stone to becoming a licensed taxi driver.

Both services transport the public. Despite the differing hiring arrangements, taxi and PH drivers transport the public in the same manner; by use of a vehicle to get from one geographical point to another, on the same roads and in the same traffic. It is therefore unreasonable to allow the two services to operate with differing passenger safety levels. A driving test and less reliability on an attention-capturing GPS device would draw the two sets of drivers closer. It is illogical to require different passenger safety standards from two different sets of drivers that transport the same public, on the same roads and under the same traffic conditions.





RIDE HAILING

Ride hailing is the biggest cause of the decline in KOL applicants. The problem is not App technology per se but rather the way it is being used by “disrupters” such as Uber to circumvent licensing regulations. Traditional PH operators use Apps for order-taking and this is to be welcomed as a useful facility for passengers. However, Uber and others such as My Taxi and Gett are using this technology as a means of effectively plying for hire. In the case of My taxi and Gett, this is perfectly legitimate as they are using bona fide taxis.

Uber are operating a pseudo taxi service with a PH operator licence. The passenger hails a taxi by looking for a hire light, either on the street or a rank. Once an available taxi is identified, the passenger raises their hand to make a hiring. The fare is then calculated by three elements; a fixed hiring charge and a combination of distance travelled and time elapsed.

Uber operate the same system of hiring. Instead of seeking a hire light, the passenger identifies available vehicles on a smart phone screen. If satisfied that there is a vehicle within a suitable distance, the passenger hails the PHV by tapping the phone instead of raising a hand. In each case, the driver responds immediately rather than being pre-booked in a traditional sense intended by legislation. The fare is calculated in the same way as a taxi fare, rather than a fixed price, remotely rather than by use of a taximeter.

Of the above, perhaps the biggest impact on the bona fide taxi service is the display of on-screen vehicle location available to the passenger. While this may be convenient for passengers, it effectively makes a PH service “on-demand” rather than “pre-booked”. In short, it is effectively plying for hire in practice. The Jacob’s report¹ identifies the huge adverse impact this “on screen” location has on the taxi service.

¹ Economic and Business Impact Assessment, October 2014

ACTION

Increase the cost of obtaining a PH licence via greater qualification requirements in order to bring it closer to the requirement to become a taxi driver. Possibly, allow such advanced training and qualification to entry into the KOL at an intermediate stage (Action 2 above).

ACTION 8

Increase the efficiency of the testing procedure to reduce the time required to pass the KOL without any reduction in quality of training and testing.

ACTION 9

Ideally, end the practice of ride-hailing. If this is not possible immediately, create a third tier of licensing that requires a ride-hail driver to achieve a quality and testing of training to a level much closer to that required of a taxi driver than a standard PH licence.



5: IMPROVED ENFORCEMENT AND COMPLIANCE

In accordance with first the FP recommendations and latterly Mayor Khan's taxi and PH plan, TfL increased their enforcement staff to 350 enforcement officers. The resources available have been bolstered by the increase in PH operator fees. This was required to provide adequate enforcement of taxis and PH. However, the cost appears to have been unsustainable as approximately 100 of these enforcement officers have now been withdrawn. As these officers were only in place for a very short time, it is doubtful that this withdrawal was due to improved methods and efficiency of compliance and enforcement.

The solution may lie in the improvement in compliance rather than closer enforcement. The poorer record in compliance and self-regulation of PH drivers as compared with taxi drivers is outlined above (4: KOL). It follows that a cost effective and more efficient use of resources could be to create a greater value to a PH driver licence.

The experience thus far suggests that making a licence more difficult to obtain increases its value to the holder. This, in turn, increases the level of self-compliance resulting in less resources being required to enforce regulations. In short, increased licensing standards will produce a more cost-effective method of policing the regulatory system.

The alternative could be to commit increasingly more resources to enforcement and compliance, while increasing driver numbers, allied to a lack of commitment to the trade, produces ever less effective outcomes.

In tandem, there should be a fixed ratio between drivers and enforcement officer levels. Previous resource allocation to enforcement and the compliance effect should be evaluated by an outside arbiter in order to establish a ratio of enforcement officers to driver numbers required to adequately produce an effective compliance outcome.





ACTION 10

In conjunction with “Action 2” above, establish an enforcement officer complement, based directly on the number of drivers (PH and taxi) licensed.

6: REGULAR IMPACT ASSESSMENTS

Any changes to the PH trade will obviously impact on the taxi trade, either positively or negatively. Yet, since TFL took over the licensing system they have conducted three PH reviews but have not commissioned an impact assessment of the effects on the taxi trade on any occasion.

Such assessments should be carried out routinely before any change to licensing conditions or operating system changes. Equally, although The Mayor/TFL do not currently have power to limit licence numbers, a regular impact assessment should be conducted to evaluate the effects of changes in total licenses and probable effects of future increases or reductions in the number of licence holders .

ACTION 11

In the event of a significant change in the licensing conditions, working practices or driver supply within PH operations, an impact study on the effects on the taxi service should be undertaken routinely.

PRIVATE HIRE

It would appear that in the past, only the opinion of PH operators have been sought by examiners of the PH system. This could be the fault of the drivers themselves not being sufficiently organized. Whatever the reason, the result has been a skewed “trade” opinion as the interests of operators conflict with the interests of the drivers as often, if not more often, than they converge. This is more evident in the case of App hail riding systems than with traditional operators. It is, therefore, pleasing to see this deficiency rectified by the current GLA Transport Committee study into taxi and PH services.

There is a stark competing objective between driver and operator in regard to supply. The greater the supply of driver available to an operator, the better will be the service level in terms of delivery of car to door. Conversely, from the driver view, the greater the number of drivers available to the operator, the less the share of work will be obtained by an individual driver.

However, the traditional operator is constrained by the need for a driver to obtain a sufficient return from operating a PHV. We shall use examples of the largest operator from each division of PH; traditional and ride-hailing.

The largest traditional operator is Addison Lee (AL). AL supply the means of production (car, insurance, etc) while the driver pays through rent, for the means of production. In return, AL



control to a great extent, when a driver may or not work. In fact, AL working practices and structure mean the driver straddles a fine line between self-employed and employed status.

With regard to cost and benefits, the AL system must attempt to balance customer price that rewards the driver a sufficient return to cover costs plus a reasonable return for labour in addition to the company's own profit. The AL driver supply is therefore constrained by these factors.

Such constraint does not apply to the ride-hailing App operator such as Uber. In this case, the operator is completely detached from the costs of vehicle and driver i.e. the bulk of the cost of the means of production. Whether or not the driver is able to make a sufficient return is of little concern to the operator.

The more pressing concern of the operator is delivery time. Uber operate a pseudo taxi service under the guise of a PH operation in order to avoid the more onerous aspects of taxi licensing. In order to compete with hailing a taxi from the street and competition from traditional PH operations, Uber require a very speedy delivery time. This was evident in their objections to a recent consideration of imposing a five minute lead time between order and dispatch of a PHV, claiming that their average response time was less than three minutes and this would harm its operation.

In order to compete effectively with the taxi service, Uber have to overcome the convenience of hailing a taxi on the street. The greater the supply of drivers at their disposal, the faster they can deliver a PHV.

The driver is not tied to Uber but can "switch" on or off at leisure, although cannot refuse a fare without penalty. As a result, whether or not an individual driver is able to make a satisfactory return from Uber is of little concern to the operator.

This allows the operator to impose fare levels on drivers without any responsibility of the adequacy of those fares. The only concern is adequate supply. Supply and demand balance is controlled by "surge pricing". When demand temporarily outstrips supply, the operator increases fares temporarily to deter some customers and induce more drivers to cover work. This is both unfair to the consumer whom, from past use, expects a lower fare and fails to comply with the regulation that commits the operator to supply a fixed or accurate fare in advance. The traditional operator is compelled to maintain a more or less permanent supply and along with the previously mentioned tax situation, puts the latter at a disadvantage.

While such balance between demand and supply is a worthy objective, it is produced in Uber's case, by penalizing customers during periods of high demand and drivers at all other times.

DRIVERS

On the evidence given by PH driver representatives to the GLA Transport Committee, the PH system is failing the supply side. The claims are that drivers have to work dangerously long hours for a return so inadequate that a large proportion are in receipt of in-work benefits to supplement their inadequate return from driving a PHV.

Their plea to the GLA was that operators should be compelled to reward drivers with a living wage from normal weekly working hours. On their evidence, they appeared not to understand that the service currently has an acute over-supply of drivers. If driver return is to be increased, the likely



outcome would be a fare increase rather than the operator appropriating a lesser share as little scope exists for the latter. As is generally true in a market economy, if fares rise, demand will fall as a proportion of customers switch to alternative substitutes, such as taxis, busses, etc.

The effect of attempting to raise PH driver returns to a "London living wage" would require a considerable increase in fares. On the assumption that PH fare price is elastic, the result will be a loss of demand that will prevent the driver achieving this objective due to an increase in fares being diluted by the lower number of fares received.

If the drivers' objective of better returns is to be achieved, a reduction in supply will be required in addition to an increase in fares. Currently, the combined taxi and PH driver supply has a 1:50 ratio² with London residents. That London is over-supplied is evident.

When full PH driver licensing was introduced in 2003, there were 24,000 drivers. In the unlicensed era the largest estimates of drivers was 60,000. The LCDC consider that driver numbers should be limited to a maximum of 60,000 if both taxi and PH drivers are to be able to enjoy a living wage from a reasonable weekly number of hours worked. The latest figure¹ shows there are 108,173 drivers. Over the last 12 weeks the total number of PH drivers is falling by an average 123 drivers per week. However, there is no shortage of drivers applying and receiving new licenses, no doubt being attracted by unfounded promises of high earnings. New licensees have averaged 208 per week. At this rate, it would take almost a decade to reduce the PH driver numbers to a reasonable level without new mechanisms to slow the growth of new licenses.

The London PH service, like many taxi and car services around the world, is the first resort of a low-skilled worker or newly-entered immigrant. The low entry requirements mean that virtually anybody of good character and holding a driver licence has the ability to enter the service and on an almost immediate basis. While these opportunity benefits should not be ignored or removed lightly, it should also be recognized that this provides the opportunity for exploitation and a disproportionate appropriation of surplus by operators.

What is certain is that if driver earnings are currently deficient, simply increasing fares are not a solution as price elasticity will prevent an increase in overall income. Such an increase in earnings will only occur if demand increases substantially or supply decreases substantially. The solution therefore, is to reduce and limit driver supply.

The way to achieve this is through primary or secondary legislation. Primary legislation would be a law change in order that the regulator had the ability to cap driver numbers. Secondary legislation could be used to increase licensing conditions, in particular with regard to driver training/ability. The introduction, for example, of an advanced driving test, would have the effect of increasing driver ability and customer value. It would also create an entry barrier as a secondary effect that would restrict new entrants. In either case, the high churn of drivers would mean that natural wastage would assist the reduction of numbers to the desired level. This would increase the bargaining power of drivers to a more acceptable level. Operators would have to compete for driver services and this would entail presenting drivers with a fairer deal than they currently enjoy.



Entry barriers of themselves should be discouraged in any industry. However, in this case they are secondary and due to the existing over-supply of drivers within the industry would help move the service from a demand-supply imbalance to a situation closer to equilibrium.

It should be considered that the reason for any regulatory authority is the result of free market failure. The taxi trade, in particular, was a chaotic and failing market prior to regulation and on a world-wide basis. For very good reason, the regulations themselves are a barrier to free trade. It follows that regulation almost automatically creates entry barriers. Therefore, the question becomes not whether or not entry barriers are introduced to the PH trade, as they already exist, but rather whether the current barriers are set at the appropriate level. There is a compelling argument that they are not currently set sufficiently high.

SOCIETAL EFFECTS

The current PH system and Uber's operation in particular, have many adverse implications for society at large. Traditional operators such as AL are based within the UK. As such, they pay taxes based on their true profit margins. Uber are based "in the cloud" and are a Transnational Company (TNC). They have both the opportunity and the ability to engage in transfer pricing in order to avoid taxation. This is inherently unfair as the company uses all the infrastructure of the UK, from education to road maintenance, without contributing its fair share to pay for the infrastructure.

One of the greatest virtues of market economics is that society gains from the efficient allocation of scarce resources. If a producer cannot produce efficiently enough to include a reasonable profit at market price, the theory holds that such a producer should leave the market and redeploy those scarce resources elsewhere to produce an optimal for society at large.

Less abstract is the Uber operation world-wide has run on a loss since inception. Its whole rationale is based on achieving a monopoly situation by driving competitors out of a market by predatory pricing. The taxi business world-wide is renowned for its lack of economies of scale. Traditionally, this allows large operations to increase efficiency and reduce market price but is absent from the taxi market. Hubert Horan³ explains that the bulk of operational costs of any taxi operation, irrespective of size, is the cost of vehicle and labour. As the driver provides both on an individual basis, there is no scope for scale economy.

Another externality is driver earnings. These are low enough in London, despite long hours worked, to merit the award of in-work benefits. This is effectively a subsidy to large PH operators to lower their production costs. While this may benefit the customer by lower fares, these fares are only lowered by society at large paying a part of those fares.

The over-supply of drivers in London has resulted in increased congestion and air pollution and these are both costs that have been externalized by the market and placed the burden of cost on society at large. As cited above (Section 1:Plying for Hire) academics have estimated that in US cities, for every mile travelled by an Uber car, congestion is increased by 1.8 miles. Uber claim to have 40,000 PHVs operating in London; the average miles travelled by London taxis is 22,000 miles per annum, according to TfL⁴ figures. If miles travelled by Uber cars is comparable, this adds



1,584,000,000 miles to London congestion, plus congestion caused by parking, picking up and setting down and its associated costs.

Section 1 above also referenced the US figure of a 3.5% predicted increase in fatal accidents. Undocumented are the number of non-fatal injuries involving Uber. Should the same level of accidents apply in the UK, the cost to society in hospital services, emergency services, sickness and other welfare benefits is colossal and all externalized by the market and the burden placed on society art large.

¹ TFL statistics, 25 November 2018.

² Taxi/PHV figures obtained from Tfl; London resident figures obtained from the NSO.

³ Hubert Horan, global transport specialist; “can Uber ever deliver”; Transport Law journal 2016-17.

⁴ Tfl taxi tariff and cost index data.

CONCLUSION

The London taxi service has been in place since the days of Oliver Cromwell. It is a highly respected, world-renowned service that is the Gold Standard that all other major cities in the world aspires to. The famous “black cab” is synonymous with London and is as well-known as red buses and Tower of London Beefeaters around the world. Yet, the cost to society is nil, as the cost of the service is completely internalized into the market, from regulator to the fare payer.

However, there are dark days ahead for the London Taxi. It is in danger of being transformed, in the near future, from being a vital part of London’s transport infrastructure, to little more than a tourist attraction, on par with Venice Gondolas and the horse-drawn carriages of Vienna.

Rules and regulations have created this Gold Standard service, not least those that require drivers to pass the KOL examinations in order to drive a licensed taxi. Unavoidably, those same rules and regulation place a high cost on the operation of the taxi service.

The creation of a second tier of licensed private hire, operating on a much less regulated and therefore, less costly basis, presented a competitive challenge to the taxi service. Indeed, over a decade the taxi “circuits” went from a combined annual turnover well in excess of £100 million per year for the largest three, to a situation where they are current mere shadows of their former operations. However, ring-fencing the ability to accept instant hiring on the street to taxis and not PHVs, enabled the taxi service to survive alongside the PH service.

The situation changed post 2012 when App-based “disrupter” operator, Uber, came to the marketplace. By use of technology, Uber has managed to operate a pseudo taxi service under the guise of a PH operator’s licence. This has given the taxi service an unenviable task of having to compete within the same marketplace as competitors operating at half the costs of the taxi service.



Such a situation cannot endure long-term. Competitive markets very purpose is to drive out inefficient producers who cannot sell at the lowest market price. In this situation, the taxi service, through the fault of the regulator rather than its own shortcomings, is an inefficient producer, with double the costs of its market competitor.

The result is that the taxi service is contracting. Drivers leaving the Trade are not being replaced by new entrants in sufficient numbers. This has caused Driver numbers to contract by 6% in just 6 years. The disparity between the fall in drivers and vehicles suggests that a number of drivers have left the service but have retained their licenses. Meanwhile, the London private hire market is over-bloated for London's needs and has increased by 450% since 2003 and 200% since 2008.

If the taxi service is not to reduce to nonentity and the PH service quality severely reduced, radical change is necessary and in the short-term. The two-tier service has to be reinforced and vigorously enforced. This means reinstating the taxi service exclusive right to ply for hire. The practice of "ride-hailing" where a customer can order a car instantly, on the street and have the car delivered to them on the street in just two or three minutes must be outlawed.

In tandem with this, the number of PH drivers must be reduced and capped at an appropriate level that allows the customer a cheaper alternative to a taxi but also allows the driver to make a reasonable living from a reasonable number of hours worked. In the absence of legislation to allow capping, this must be achieved by increasing the qualification level of PH drivers, such as an English Language test, advanced driving test, more rigorous topographical testing, etc, and increasing vehicle fitness requirements such as a reasonable proportion (25%) of the PH fleet being made accessible.

If these changes are made in their entirety, London shall be able to continue to enjoy its world-renowned taxi service and have it supplemented possibly by Gold Standard PH service. If the current situation continues, London will lose its famous taxi service and the continuance of the PH service that currently reduces a driver to servitude. London must decide as to do nothing ensures the latter.





REQUIRED ACTION

ACTION 1: FARES

The currently requirement on PH operators to supply an exact of accurate estimate of a fare should be applied rigidly. Offering a range between two points, unless very narrow, cannot be regarded as an accurate estimate and the practice should be outlawed.

Similarly, “surge pricing” is both confusing and not in the interest of the passenger and should be banned.

ACTION 2: PHVs

There are a wide range of vehicles available and currently being used around the UK as taxis and PHVs that are wheel-chair accessible (WAV). Traditional PH operations should compulsorily make 25% of fleets WAV. For operators such as Uber, that offer ride-hailing services as opposed to simply placing an advance booking by app, the requirement should be a 100% WAV fleet.

ACTION 3: DRIVERS

Ride-hail drivers should be required to pass an advanced driving test and receive training on where and how to pick up and set down passengers.

Drivers of PHVs equipped for ride-hailing services should be licensed separately to both taxi and PH drivers. There should be a requirement to obtain a significantly higher degree of topographical knowledge as a licensing requirement, over and above that required for traditional advance booked operations. Perhaps, a level that meets the written test taxi drivers have to pass as an interim stage of the KOL.

This could produce additional benefits. The Mayor’s Action Plan looks to increasing vocational training of the PH driver. If TFL succeed in their attempt to gain vocational accreditation for the KOL this would certainly achieve that. Possibly the attainment of a ride-hailing licence could allow the holder to enter the KOL examination process at an interim stage. This would also bolster an ageing taxi driver population and encourage new entrants to the KOL, which is in desperate need of new applicants.

ACTION: 4

The Mayor and TFL should continue and redouble efforts to apply lobby pressure on government to address this problem and also to regularly inform the taxi trade of any such lobbying that takes place.

ACTION 5

PHVs should be covered by H&R insurance at all times.

ACTION 6

PH operators should hold a fleet Contingent Liability Policy as a licensing condition.



ACTION 7

Prior to implementation of any new regulations placed on taxis that are not similarly placed on PHVs, a study be undertaken to determine the additional cost to the taxi service. Once such cost is determined, to evaluate the competitive effect on the taxi service.

Any such study should be disseminated publicly and put to public consultation.

ACTION 8

Increase the efficiency of the testing procedure to reduce the time required to pass the KOL without any reduction in quality of training and testing.

ACTION 9

Ideally, end the practice of ride-hailing. If this is not possible immediately, create a third tier of licensing that requires a ride-hail driver to achieve a quality and testing of training to a level much closer to that required of a taxi driver than a standard PH licence.

ACTION 10

In conjunction with "Action 2" above, establish an enforcement officer complement, based directly on the number of drivers (PH and taxi) licensed.

ACTION 11

In the event of a significant change in the licensing conditions, working practices or driver supply within PH operations, an impact study on the effects on the taxi service should be undertaken routinely.