

Customer Service and Operational Performance Panel



Date: 13 July 2017

Item: Taxi and Private Hire Licence Fees

This paper will be considered in public

1 Summary

- 1.1 This paper relates to licence fees for Private Hire operators, drivers and vehicles; and to the licence fees for taxi drivers and taxis.
- 1.2 Proposals in relation to changes to Private Hire operator licence fees were subject to a public consultation which closed on 16 June 2017. Final proposals for any changes to operator licence fees will be submitted to the meeting of the Board on 19 July 2017 once the outcome of the consultation has been properly considered.

2 Recommendation

- 2.1 **That the Panel notes the paper.**

3 Background

- 3.1 Licence fees cover the costs of the licensing administration process and compliance and enforcement activities associated with the regulation of the licensed trades. This includes the cost of compliance and enforcement activity necessary to meet commitments made in the Mayor's Taxi and Private Hire Action Plan which was published last year, where these costs can be legitimately recovered through licence fees.
- 3.2 At present these costs are not being met in full from licence fees. This is not a sustainable position as it means that funding is required from other TfL budgets to maintain essential licensing activities. Given the current pressure on budgets across TfL it is important that we address this imbalance. The consultation proposals seek to do this, although the position will be kept under review in future financial years.
- 3.3 We are proposing to make adjustments to the fees for private hire drivers and vehicles, and for taxi drivers and licensed taxis, in line with our normal annual process of reviewing licence fees.
- 3.4 For private hire operators, we consulted on a proposed new licence fee structure that reflects the costs to TfL of regulatory, licensing and enforcement activities associated with Private Hire operators.

- 3.5 The proposals set out in the consultation represent a substantial change to the current fee structure for operators and it is accepted that the size of the proposed increase in fees will have a significant impact on some operators. For this reason, we undertook a public consultation to seek views on our proposals. The consultation took place from 20 April to 16 June 2017.
- 3.6 We received 1,438 responses to the online consultation, and an additional 25 written responses from the main private hire operators and other stakeholders.
- 3.7 The majority of those who responded to the online consultation opposed the proposal to change the structure of operator licensing fees – although some made alternative suggestions for how the discrepancy between the current licence fee and the actual regulatory costs associated with small and large operators could be addressed. Similarly, a majority did not support the proposed tier of charges for operators, nor the ability for larger operators to pay by instalments.
- 3.8 Written responses from stakeholders, mostly private hire operators, showed that, while there was general support for the principle of changing the current fee structure, there were concerns about the impact on small/medium sized operators. There was also a concern that the fees might be passed on to drivers through higher commissions/charges. An impact assessment, including an assessment of the economic impact on operators, will be made available to the Board.
- 3.10 The Metropolitan Public Carriage Act 1869, as amended by the Greater London Authority Act 1999, enables the licensing authority (TfL) to charge licence fees. This includes fees associated with taxi driver applications, licensing application tests and re-tests and licence grant fees for taxi drivers and vehicles. Private hire legislation allows TfL to charge licence application and grant fees for private hire drivers, vehicles and operators.
- 3.11 Licence fees are reviewed every year to reflect the cost of licensing and regulating the taxi and private hire trades.
- 3.12 The Mayor's Taxi and Private Hire Action Plan set out a number of measures to improve safety and standards in the taxi and private hire industry. This included a commitment to quadruple the number of dedicated on-street compliance officers, with 250 more in post by summer 2017. These officers undertake a range of compliance and enforcement duties such as on-street driver and vehicle checks, operator inspections and they investigate and take enforcement action against illegal activity. The Action Plan also committed to a review of operator licence fees so that fees charged are more closely aligned with the costs of regulating operators.
- 3.13 TfL can only use licence fee revenue to meet the costs of licensing, compliance and enforcement activity. However the current fee structure for operators does not allow us to recover these costs. Currently all operators with three or more vehicles pay the same licence fee. This means operators with as few as three vehicles pay the same as those with a fleet of hundreds or thousands of vehicles.

- 3.14 Enforcement and compliance activities benefit all licensees, as it includes action to deter and detect unlicensed vehicles, drivers and operators and other illegal activity. We also propose an uplift of fees for private hire drivers and vehicles, and for taxi drivers and vehicles to reflect the regulatory cost associated with regulating vehicles and drivers. This uplift was not subject to consultation as the fees calculation used the same approach as in previous years.

Structure of the Private Hire Market

- 3.15 The nature of private hire operations in London has changed substantially since regulation of these services was introduced in 2001. The growth in new technologies and means of accepting and discharging bookings, for example via smartphone apps, has supported a large increase in the number of private hire drivers and vehicles licensed.
- 3.16 There are now around 117,000 licensed private hire drivers and 87,000 licensed private hire vehicles in London. A consequence of this unprecedented rise is increasing pressure on licensing administration costs as well as the cost of increased enforcement and compliance activity.
- 3.17 Operator licence fees cover the licensing administration, compliance and enforcement activity associated with a five year operator licence which is the usual licence duration. The cost of processing a licence application and the regulatory costs associated with an individual operator differs in relation to fleet size, and gets proportionally larger as the size of the fleet increases. However, fees are currently the same for all sized operators (£2,826 for a five year licence), except for “small” operators - those with up to two vehicles - who pay £1,488 for a five year licence.
- 3.18 Many small operators are one-person (often chauffeur) businesses in which the same person is licensed as an operator, driver and vehicle owner. Approximately half of all operators have less than ten vehicles in their fleet. A further fifth have between 11 and 20 vehicles and a third have between 21 and 100 vehicles. Only a small proportion (about five per cent) have large fleets of over 100 vehicles.

4 Operator Fees Consultation

- 4.11 In spring 2015 we began an extensive consultation process on the Regulations applicable to the private hire industry in London. The second stage of this consultation proposed a review of the current operator licence fee structure. This was supported by 57 per cent of respondents and was endorsed by the Board, along with a package of other measures, in March 2016.
- 4.12 The consultation on operator licence fees ran from 20 April to 16 June 2017. It proposed a change to the fee structure whereby the existing categories of “small” and “standard” operator would be replaced by a new five-tier structure. This would reflect the actual cost of licensing and compliance activities that we are able to recover.
- 4.13 The proposed new structure that was consulted upon is set out at Appendix 2 along with a breakdown of Operator cost forecasts and allocation across Tiers.

- 4.14 As at November 2016 when the proposed licence fees were calculated, the total projected licence and compliance costs for the taxi and private hire trade over the next five years was approximately £209m. Based on anticipated demand for resources to undertake the required regulatory activities over the next five years, 15 per cent of the £209m will be recovered from fees received from the taxi trade and 85 per cent from fees received from the private hire trade. Private Hire operator licensing administration costs are approximately £8m and TfL incurred operator enforcement costs of approximately £30m, over a five year period. It should be noted that if the proposed 2017/18 fees remain fixed for the next five years the projected income would be £172m. This is £37m short of recovering the £209m projected costs. All cost and volumes projection will be reviewed in advance of the 2017 Business Plan which will form the basis of the 2018/19 licence fee calculation.
- 4.15 To mitigate the impact of the proposed increases in the size of fees that larger operators will need to pay in future and to not unduly create a barrier to operators seeking to scale up their businesses over a five year period, we proposed in the consultation that operators in the largest three categories should be able to pay their fees in annual instalments.
- 4.16 We also proposed that an element of the fee would comprise a flat per-vehicle fee for those with fleets over 1,000 vehicles.
- 4.17 Consultees were invited to complete an online questionnaire, email the TfL consultation team or write in directly.

Online Questionnaire

- 4.18 A total of 1438 responses were received to the online questionnaire. The questions asked, and the responses received, were as follows:

	Yes	Partially	No	Not sure	No opinion
Do you agree with our proposal to change the existing structure to reflect the size of private hire operators?	277	117	1022	11	10
Do you agree with the proposed tiers to be used to allocate fees?	210	96	1095	24	9
Do you agree that operators in the three largest tiers should be able to pay the grant of licence fees in annual instalments?	281	60	988	40	9

- 4.19 In addition to these questions, respondents were invited to add any further comments. Of the 1,438 responses received, 1,053 provided additional comments. The main relevant comments made were:
- (a) many from small/medium sized operators saying that the fees as proposed were not affordable and/or would make their business unviable. Others highlighted impact on drivers and on customers if fees were passed on;

- (b) many broadly supported the principle but had issues with the tiers and/or the charging structure – some offered different alternatives. Most concern was with the increase at 21 vehicles and at 101 vehicles. The most popular alternative was an increase in the number of bands to graduate the increase. Some wanted specific exemptions (e.g. those with social care contracts); and
- (c) a suggestion that there should be a cap on private hire vehicle numbers.

Written Responses

- 4.20 A total of 25 written responses were received. Whilst these stakeholders generally supported the principle of changing the fee structure, they had concerns about the proposed level of fees, and of bandings. Responses from United Private Hire Drivers and GMB professional drivers branch - both representing private hire drivers – raised concerns the additional fees are likely to be passed on to drivers in the form of higher commissions etc. Responses from the two main private hire trade bodies – the Licensed Private Hire Car Association and the Private Hire Board, strongly opposed both the consultation process and the proposals in their current form.
- 4.21 A summary of consultation responses is attached at Appendix 1.

Discussion

- 4.22 It is clear from the consultation responses that a number of private hire operators are opposed to the proposals, although there is generally support of a need to change the current arrangements.
- 4.23 However, it is clear the current system is not fit for purpose – there is a significant mismatch between the fees charged to operators and the licensing, regulatory, and compliance and enforcements costs associated with the regulation of operators. It is also inherently unfair that larger operators are effectively subsidised by other licence holders.
- 4.24 Enforcement and compliance supports all licence holders and should be funded by licensees and not subsidised elsewhere in TfL – it is unsustainable to fund from other TfL budgets.
- 4.25 Some consultees suggested that a different tier structure should be adopted, in particular a larger number of tiers so that the increase in fees is more graduated. Whilst this may have advantages for some operators, an increasing number of tiers would add to the complexity of implementing the proposals and create further pressures on fees.
- 4.26 There were also proposals for a flat per vehicle charge for all operators, regardless of size. However to extend this to all 2,400 operators would be more complex to implement and incur significant additional costs to the licence fee and it would be very difficult to ascertain the likely fee payable in advance. This would have implications for our financial forecasting and budgets. It would ultimately increase administration costs and make all licences more expensive.

4.27 Final proposals for any changes to operator licence fees will be submitted to the meeting of the Board on 19 July 2017 once the outcome of the consultation has been properly considered.

5 Implementation

5.1 The current arrangements for operator licence fees are set out in the Private Hire Vehicles (London) (Operators' Licences) Regulations 2000 (as amended). Any changes to fees would require a change to these Regulations.

5.2 As with all other taxi and private hire licence fees, operator fees will be reviewed annually and adjustments made to ensure we are recovering our regulatory and licensing costs, and to ensure there is no cross-subsidisation between activities. Any changes to fees are subject to approval by the Board.

6 Impact Assessment

6.1 An Impact Assessment considering the economic and equalities impacts will be prepared to accompany final proposals when presented to Board and before any final decisions are taken.

7 Financial Implications

7.1 The financial impact on private hire services, in particular operators, of final proposals will be made available to Board. Ensuring operators pay appropriately for the services used removes the financial burden on TfL, drivers and vehicle owners.

List of appendices to this report:

Appendix 1: Summary of consultation responses

Appendix 2: Proposed fees that were consulted upon

List of background papers

Mayor's Taxi and Private Hire Action Plan, September 2016

Contact Officer: Peter Blake, Director of Service Operations, Surface Transport

Number: 020 3054 8095

Email: PeterBlake@tfl.gov.uk

APPENDIX 1: SUMMARY OF CONSULTATION RESPONSES

Operator fees consultation: stakeholder responses

The consultation ran from 20 April to 16 June 2017. Consultees were invited to complete an online questionnaire, or to write or email the consultation team. Responses were received as follows:

Responses to online questionnaire:

1438 replies						
Q1 Do you agree with our proposal to change the existing structure to reflect the size of private hire operators?						
	Yes	Partially	Not Sure	No Opinion	No	No Answer
Total	277	117	11	1	1022	10
A Licenced Taxi (BlackCab) Driver	41	4	1	0	6	1
A Licenced Taxi (BlackCab) User	24	3	1	0	20	0
A Non Taxi User	23	2	1	0	17	0
A representative of an organisation	7	8	0	0	18	0
Other	41	20	0	1	103	0
Q2: Do you agree with the proposed tiers to be used to allocate fees?						
	Yes	Partially	Not Sure	No Opinion	No	No Answer
Total	210	96	24	4	1095	9
A Licenced Taxi (BlackCab) Driver	36	6	3	0	7	1

A Licenced Taxi (BlackCab) User	22	3	1	0	21	1
A Non Taxi User	22	2	3	0	27	0
A representative of an organisation	3	5	2	0	56	0
Other	39	25	4	0	181	0
Q3: Do you agree that operators in the three largest tiers should be able to pay the grant of licence fee in annual instalments?						
	Yes	Partially	Not Sure	No Opinion	No	Not Answered
Total	281	60	40	60	988	9
A Licenced Taxi (BlackCab) Driver	11	5	2	0	34	1
A Licenced Taxi (BlackCab) User	13	1	1	1	32	0
A Non Taxi User	17	2	2	5	28	0
A representative of an organisation	17	6	1	4	38	0
Other	48	15	4	19	162	1

Additional comments

Of the 1438 responses, 1053 provided additional comments on Question 4, which was an open text box for respondents to provide further comment. A majority of comments were provided by those that disagreed, or only partly agreed, with the proposal.

The main themes of those comments that were relevant covered the following:

- Many from small/medium sized operators saying that the fees as proposed were not affordable and/or would make their business unviable. Others highlighted impact on drivers and on customers if fees were passed on.

- Many broadly supported the principle but had issues with the tiers and/or the charging structure – some offered different alternatives. Most concern was with the jump at 21 vehicles and at 101 vehicles. Most popular alternative was an increase in the number of bands to graduate the increase. Some wanted specific exemptions (e.g. those with social care contracts).

Other comments made included:

- The fees should be higher
- Fees for drivers and the taxi trade should be raised instead
- Shorter licence periods (eg - one or two years, not five)
- Questions about implementation eg - how size of operator is established/monitored; status of existing licence holders
- More information on what compliance activity is needed, and why
- Comments related to wider Taxi and Private Hire issues (operator tax arrangements; drivers claiming benefits; emissions; congestion; enforcement in other parts of UK; use of bus lanes)

Responses by email

There were 23 email replies received. The majority from stakeholders and summarised below. The rest were from small PH Operators or PH drivers.

The majority of responses felt that the charges were set too high and would risk putting them out of business.

Stakeholders/trade

Responses were received from the following key stakeholders:

Uber – support the principle of changing the fee structure but questioned both the rationale behind the increase in compliance activity and the scale of charges proposed. They also suggested that fees could be related to the compliance history of each operator and point out the practical difficulties of implementing the proposals.

GETT – support the proposal but suggest changes to the bandings.

Licensed Private Hire Car Association – oppose the proposals and were critical of the consultation process.

Private Hire Board – they opposed the proposals and were critical of the consultation process. They suggest that the proposal would put a number of small and medium sized operators out of business.

Addison Lee - broadly support principle but want a “per vehicle” charge to apply to all sizes of operator instead of suggested bandings. They also want enforcement costs to be aligned to activities and to take account of an operator’s compliance ratings.

Marylebone Society - primarily concerned about over-ranking but link this to PH numbers which they think maybe limited by this proposal – therefore they support. They question absence of any modelling about impact on numbers of increased fees.

United Private Hire Drivers – contend the burden of fees overall is too high for drivers and the additional fees are likely to be passed on to them in the form of higher commissions etc. They call for a “per vehicle” charge and also suggest that there should be charges for taxi app (we do not have legal power to do this).

Driver Guides Association – argue the impact is disproportionate on smaller businesses, particularly those in niche markets with few vehicles. They argue that these small businesses are unconnected with the wider mass market and therefore should not be expected to make such large contributions to those enforcements costs.

GMB professional drivers branch – accept larger operators should pay higher fees than smaller ones but do not agree the current bandings are fair. They offer an alternative banding system. They are also concerned at the level of fees overall, and that ultimately the fees will be passed on to drivers as operators would not be able to afford them.

Licensed Taxi Drivers Association – fully support the proposals. They also make comments about private hire insurance, and the growth of private hire vehicles and drivers in London, which are out of the scope of this consultation.

APPENDIX 2: PROPOSED FEES

The proposed fees consulted upon are:

Fee Type		Current Fee (£)	Proposed fee (£)
Taxi vehicle	Application Fee	65	72
	Licence Fee	33	38
	Digital Taxi Top Application Fee	133	No change
	Digital Taxi Top Licence Fee	33	No change
Taxi Driver	Application Fee	80	180
	Licence Fee	192	120
Knowledge of London	Appearance Fee	400	No change
	Written Test Fee	200	No change
Private Hire Drivers	Application Fee	150	180
	Licence Fee	100	120
Private Hire Vehicles	Application Fee	65	94
	Licence Fee	35	51
Private Hire Operators	Application Fee	838	See below
	Licence Fee (small)	650	See below
	Licence Fee (standard)	1,988	See below
	Variation Fee (add operating centre)	300	No change
	Variation Fee (remove operating centre)	50	No change

The proposed fees for operators consulted upon are:

Number of vehicles	Approx number of operators	Current Fee (£) (Total)	Proposed 5 year fee (£)			Proposed Fee as an annual cost (£)
			Application	Grant of licence	Total	
0-10	1,126	1,488 (for 0-2 vehicles only) 2,826 (3+ vehicles)	£783	£1,205	1,988	N/A
11-20	511		£2,042	£3,148	5,190	N/A
21-100	877		£8,794	£13,220	22,014	4,403
101-1,000	113		£66,425	£100,093	166,518	33,304
1,001+ Allocated per vehicle	2		£66,425 (+34 per vehicle registered)	£100,093 (+34 per vehicle registered)	166,518 + 68 per vehicle registered	33,304 + 14 per vehicle registered

The fee for a private hire operator licence comprises two parts:

Licence application fee

This is a non-refundable amount payable by all applicants on submission of an application. It relates to the activities necessary to process an application.

Grant of licence fee

This is paid on issue of a licence. It relates to the compliance work (such as inspection of premises, records etc.) and enforcement work (such as proactive initiatives e.g. ongoing operation Neon, policing, investigations, prosecutions and on-street activity) necessary to support the licensed trades.

Only the licence application fee must be paid at the application stage: the grant of licence fee only becomes payable if the application is successful. Although these fees are two separate parts, the option will remain for Operators to pay both fees at the same time, but on the basis that the costs of running and enforcement of the licensing scheme is refundable if the application is unsuccessful. For short-term licences, the grant of licence fee is calculated on a pro-rata basis.

Operator cost forecasts and allocation across Tiers

The forecasted gross expenditure to be recovered between financial years 2017/18 and 2021/22 is £209m, this includes the forecasted deficit for financial year 2016/17. Twenty per cent of this expenditure has been deemed to be attributable to private hire operators.

Expenditure projections as at November 2016

Forecasted gross regulatory spend	2017/18-2021/22	Allocation assumption					
		PH Driver	PH Vehicle	Operator	TX Driver	TX Vehicle	KOL
Total spend to recover	£ 209m	£ 77m	£ 61m	£ 41m	£ 10m	£ 10m	£ 10m
% of total spend to recover		37%	29%	20%	5%	5%	5%

The attributable gross private hire operator expenditure has been offset by income received in previous years relating to financial years between 2017/18 and 2021/22 and the forecasted deficit to be carried forward into financial year 2022/23. The resulting net private hire operator expenditure relating to the licence period of £38m has been allocated to 'Tiers' based on assumptions around staff time required for each tier as illustrated in the table below.

Assumptions as at November 2016

	Compliance expenditure		Licence & Policy expenditure		Total expenditure	No of operators	Top tier vehicles
	allocation*	£	allocation*	£	£		
0-10 vehicles	3%	£ 1m	13%	£ 1m	£ 2m	1,126	
11-20 vehicles	5%	£ 1m	9%	£ 1m	£ 2m	511	
21-100 vehicles	38%	£ 11m	54%	£ 4m	£ 15m	877	
101-1000 vehicles	46%	£ 14m	16%	£ 1m	£ 15m	113	
1001+ vehicles	9%	£ 3m	9%	£ 1m	£ 3m	2	44,500
Net expenditure recoverable ^	100%	£ 30m	100%	£ 8m	£ 38m	2,629	

* allocation based on staff time

^ Total net expenditure recovered includes income received in advance and deficit carried forward to future years

