

## Summary: Intervention & Options

Department /Agency:

Driving Standards Agency

Title:

Impact Assessment of increasing fees of the practical test for motorcycles and mopeds

Stage: Final

Version: 1

Date: 17 November 2008

Related Publications: Consultation paper: Introducing the new practical motorcycling test and associated fees.

Available to view or download at:

<http://www.dsa.gov.uk>

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What is the problem under consideration? Why is government intervention necessary?

The income received from practical motorcycling tests will not meet the increased costs of providing the tests in future and there is an existing deficit on the motorcycling account to address.

Government intervention is necessary as the provision of practical motorcycling tests is prescribed in legislation.

What are the policy objectives and the intended effects?

To ensure the costs of delivering the practical motorcycling test are fully covered by the income received. The test fee should comply with HM Treasury "user pays" principle.

What policy options have been considered? Please justify any preferred option.

1. Maintain DSA's fees at 2008 levels. This would create an adverse financial impact which would involve either a reduction in the number of examiners or test centres or both, leading to increased waiting times or increased journey times for tests. This option is not acceptable to key stakeholders.
2. Increase the fee and conduct a single event test. The fee would be set to recover costs and the productivity loss that would occur due to the reduction to 6 tests per day and to recover full costs and overheads of the activity.
3. Increase the fee and conduct a modular test. Fees would be set to recover the full cost of the road riding element of the test and on a marginal basis to recover the manoeuvres element of the test

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The level of the practical motorcycling test fee will be reviewed within 12 months of implementation as part of the agency's business planning process.

**Ministerial Sign-off** For SELECT STAGE Impact Assessments:

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options*

Signed by the responsible Minister:

*Jim Fitzpatrick*..... Date: 28/1/2009

## Summary: Analysis & Evidence

Policy Option: 1

Description: Maintain DSA fees at 2008 levels

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' There are no direct costs associated with this option. The non monetised costs are described below.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	£		
	<b>Average Annual Cost</b> (excluding one-off)		
	£		<b>Total Cost (PV)</b> £
Other <b>key non-monetised costs</b> by 'main affected groups' 1. Degradation in customer service levels. 2. No further service coverage could be provided. 3. The current deficit would not be addressed.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' No benefits result from this option.
	<b>One-off</b>	<b>Yrs</b>	
	£		
	<b>Average Annual Benefit</b> (excluding one-off)		
	£		<b>Total Benefit (PV)</b> £ 0
Other <b>key non-monetised benefits</b> by 'main affected groups'			

Key Assumptions/Sensitivities/Risks

Price Base Year 2008	Time Period Years 1	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £
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What is the geographic coverage of the policy/option?	GB		
On what date will the policy be implemented?			
Which organisation(s) will enforce the policy?	DSA		
What is the total annual cost of enforcement for these organisations?	£		
Does enforcement comply with Hampton principles?	Yes/No		
Will implementation go beyond minimum EU requirements?	N/A		
What is the value of the proposed offsetting measure per year?	£		
What is the value of changes in greenhouse gas emissions?	£		
Will the proposal have a significant impact on competition?	Yes/No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium      Large
Are any of these organisations exempt?	No	No	N/A      N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)
Increase of    £	Decrease of    £	<b>Net Impact</b> £

Key:      Annual costs and benefits: Constant Prices      (Net) Present Value

## Summary: Analysis & Evidence

Policy Option: 2

Description: Increase the fee to a level that contributes to reducing the deficit on the motorcycling test account with a single event test

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Marginal increase in revenue (Normal test) = £801,000 Marginal increase in revenue (Out of hours test) = £9,000
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	£		
	<b>Average Annual Cost</b> (excluding one-off)		
	£ 810,000		<b>Total Cost (PV)</b> £ 810,000
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Marginal increase in revenue (Normal test) = £801,000 Marginal increase in revenue (Out of hours test) = £9,000
	<b>One-off</b>	<b>Yrs</b>	
	£		
	<b>Average Annual Benefit</b> (excluding one-off)		
	£ 810,000		<b>Total Benefit (PV)</b> £ 810,000
Other <b>key non-monetised benefits</b> by 'main affected groups'			

**Key Assumptions/Sensitivities/Risks** i) Motorcycling test would be conducted from planned estate of MPTCs and no further service coverage could be provided.ii) Stakeholder concerns regarding the location and availability of motorcycling test facilities not addressed.iii) Does not support modular approach to learning and testing outlined in Learning to Drive

Price Base Year 2008	Time Period Years 1	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £
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What is the geographic coverage of the policy/option?		GB	
On what date will the policy be implemented?		1/10/2009	
Which organisation(s) will enforce the policy?		DSA	
What is the total annual cost of enforcement for these organisations?		£	
Does enforcement comply with Hampton principles?		Yes/No	
Will implementation go beyond minimum EU requirements?		N/A	
What is the value of the proposed offsetting measure per year?		£	
What is the value of changes in greenhouse gas emissions?		£	
Will the proposal have a significant impact on competition?		Yes/No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium      Large
Are any of these organisations exempt?	No	No	N/A      N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)	
Increase of    £ 0	Decrease of    £ 0	<b>Net Impact</b>	£ 0

Key:      Annual costs and benefits: Constant Prices      (Net) Present Value

## Summary: Analysis & Evidence

<b>Policy Option: 3</b>	<b>Description:</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' Module 1 tests (60,000) = £330,000 Module 2 test (Normal test) (89,000) = £445,000 Module 2 test (Out of hours) (1,000) = £6,500				
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;"><b>One-off</b> (Transition)</td> <td style="width: 30%; text-align: center;"><b>Yrs</b></td> </tr> <tr> <td style="background-color: #ffffcc;">£</td> <td></td> </tr> </table>		<b>One-off</b> (Transition)	<b>Yrs</b>	£	
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	£					
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<b>Average Annual Cost</b> (excluding one-off)						
£ 781,500						
<b>Total Cost (PV)</b>	£ 781,500					

Other **key non-monetised costs** by 'main affected groups'

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' Module 1 tests (60,000) = £330,000 Module 2 test (Normal test) (89,000) = £445,000 Module 2 test (Out of hours) (1,000) = £6,500				
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£ 781,500						
<b>Total Benefit (PV)</b>	£ 781,500					

Other **key non-monetised benefits** by 'main affected groups' A modular test will allow for an improved level of customer service and support the modular approach outlined in the Learning to Drive Consultation. This option would eliminate the in-year deficit but does not address previous accumulated deficits or the additional cost impacts associated with the modular test

**Key Assumptions/Sensitivities/Risks** Moving to a modular testing system comes with the risk of decreasing productivity and changes to the systems, booking and certification and documentation development costs. These are addressed in a separate IA

Price Base Year 2008	Time Period Years 1	<b>Net Benefit Range (NPV)</b> £ 0	<b>NET BENEFIT (NPV Best estimate)</b> £ 0
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What is the geographic coverage of the policy/option?	GB				
On what date will the policy be implemented?					
Which organisation(s) will enforce the policy?	DSA				
What is the total annual cost of enforcement for these organisations?	£ 0				
Does enforcement comply with Hampton principles?	Yes/No				
Will implementation go beyond minimum EU requirements?	N/A				
What is the value of the proposed offsetting measure per year?	£				
What is the value of changes in greenhouse gas emissions?	£				
Will the proposal have a significant impact on competition?	Yes/No				
Annual cost (£-£) per organisation (excluding one-off)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;">Micro</td> <td style="width: 25%;">Small</td> <td style="width: 25%;">Medium</td> <td style="width: 25%;">Large</td> </tr> </table>	Micro	Small	Medium	Large
Micro	Small	Medium	Large		
Are any of these organisations exempt?	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;">No</td> <td style="width: 25%;">No</td> <td style="width: 25%;">N/A</td> <td style="width: 25%;">N/A</td> </tr> </table>	No	No	N/A	N/A
No	No	N/A	N/A		

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)
Increase of £ 0	Decrease of £ 0	<b>Net Impact</b> £ 0

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Summary: Analysis & Evidence

Our best judgement is that this scheme delivers costs to the UK without cost to Government. The cost of such tests is met by the candidates themselves. There is no burden on business or the voluntary sector.

### Description of the scheme

DSA proposes to implement increases in fees for statutory motorcycling practical tests for tests taken on or after 5 October 2009. Individual fee increases will depend upon the outcome of the separate proposal to implement a modular approach to motorcycling testing and we have prepared a separate impact assessment.

If the motorcycling test remains as a single event, the Agency proposes to increase the fees from £80.00 to £89.00 for weekday tests and from £92.00 to £101.00 for out of hours tests from 5 October 2009. (Option 2)

If a modular motorcycling test is implemented, the existing £80 standard test fee would be split £10 for module 1 tests and £70 for modular 2 tests from commencement of the 2 part test. This follows from the previous increase from £60 to £80 in October 2008 which was originally based upon a £10 general fee increase and a £10 loss in productivity. Had the Agency planned for a 7 test day at that stage a £70 fee would have been charged.

If a modular motorcycling test is implemented it is proposed increased fees for test taken from 5 October 2009 would be:

- Module 1 (Specified manoeuvres test) would increase from £10.00 to £15.50 (weekday and out of hours)
- Module 2 (road riding test) would increase from £70.00 to £75.00 for standard weekday tests and from £82.00 to £88.50 out of hours tests. (Option 3)

### Background

Fees are set to recover the full cost of delivering the service. The projected cost of delivering these services has taken account of the following:

- Direct costs - such as the salary of an examiner conducting the test
- Indirect costs - such as the accommodation, training and supervision of the examiner conducting the test
- Direct overheads - such as operational support activities
- Indirect overheads - such as Finance, Human Resources, Information Communications & Technology, Executive and Policy cost
- Return on Capital – impact of achieving 3.5% cost of investment

The cost of such tests is generally met by the candidates themselves.

The likely volumes of tests are based on published business plan volumes that take into account historic trends as adjusted for re-forecasts, demographic and underlying changes in business processes where appropriate. In some cases the projected volumes have been above what has been forecast. This has at times resulted in a surplus for particular fees. Where this has occurred we have limited increases the following year to run down surplus revenue and/or utilised it to fund provision of road safety information schemes such as 'Arrive Alive'.

## **Why do we need to increase the fees for the practical tests taken by learner motorcycle and moped riders?**

The motorcycling practical test account currently has a significant deficit. This has risen to £4.2m as at March 2008. The account has been brought into balance during the 2008-09 financial year following an increase in fees from October 2008, however costs for the resources involved in conducting the manoeuvres element of the test are yet to be incurred. DSA cannot allow motorcycling tests to be subsidised by the customers of other test types.

Reducing DSA costs to bring the account into balance would require substantial reductions in service standards and test centre coverage. This would increase waiting times and the distance that customers would need to travel to their test and would be unacceptable to stakeholders.

### **The Agency has considered the following options:**

**Option 1** - Do nothing and operate a single event test with fees at the existing level of £80 per test

**Option 2** - Retain a single event test and increase the fee to £89.00 per test

**Option 3** - If a modular motorcycling test is introduced, increase the overall test fee to £90.50, apportioned between the two modules - this is the preferred option.

### **Option 1 - Do nothing and operate a single test event at the existing level of £80 per test**

Under this option the test would remain as a single event and the fee would stay at £80 per test.

This option is not feasible as it would present a number of fundamental concerns:

- Major financial issues for DSA would result in a significant degradation in customer service levels. This may result in test centre closure.
- The motorcycling test would be conducted from the existing estate of MPTCs and no further service coverage could be provided.
- It would not reflect the HM Treasury “user pays” principle
- It will not address the current deficit or the likely additional deficit in 2009/10. This would mean that the deficit on the motorcycling test account would increase and would require subsequent steep increases.
- This option would require cross subsidy by other fee payers.
- This does not address stakeholder concerns regarding the location and availability of motorcycling test facilities.
- This option would not support the modular approach to learning and testing outlined in the recent *Learning to Drive* Consultation paper.

### **Benefits**

There are no foreseeable benefits for the consumer of maintaining the current fee structure – as this is the business as usual scenario.

## Option 2 - Increase the fee to £89.00 per test and operate a single event test.

In the DSA Business Plan for 2008/09, we estimated that a single event test would increase from £80 per test to £90.50 per test from 1 April 2009. This was the best estimate at that time and based upon a single event test conducted by examiners able to deliver 6 tests per day.

The Agency has further reviewed the cost of the motorcycling practical test fee. The actual cost of the activity as published in the 2007-08 Annual report and Accounts was £7,214,000 before interest and capital costs, equivalent to a cost per test of £76.66. The deficit incurred in-year amounted to over £1.6m, bringing the accumulated deficits to almost £4.2m.

Cost pressures continue from the implementation and operational costs of the Multi Purpose Test Centre project as the number of operational sites increased throughout 2007-08 and 2008-09. The impact of the lost productivity from a planned single test event, based upon a 6 test examiner day, will be incurred from the commencement of the new motorcycling test from April 2009.

The delayed test fee increase commencing October 2009 will be 6 months later than envisaged in the business plan, the average price inflation as measured by RPI/CPI has averaged around 5% per annum. Additionally the Agency has increased quality assurance activities and needs to continue funding of policy initiatives such as the Government Motorcycle Strategy.

In order to recover the expected costs of a single event test in the 12 months period from October 2009, the Agency has calculated the need for an increased test fee of £89 for normal weekday tests and £101 for out of hours tests. An extended test will cost £178 weekday and £202 out of hours.

### Costs

A detailed breakdown of the fee increases based upon single test event is as follows:

	2007-08 <i>actual</i>	2008-09 <i>estimate</i>	Apr - Sept 2009 <i>estimate</i>	12 mths to Sept 2010 <i>estimate</i>
Volume of total fee earning transactions expected (number)	94,079	99,530	45,000	90,000
Normal/Out of Hours Fees (£)	£60/£70	£80/£92	£80/£92	£89/£101
Fee income from service (before proposed increase) (£k)	£5,607	£6,650	£3,600	£7,200
Increased income from new/revised fee (£k)				£810
Operating budget for service (before input price increases and any other added expenditure) (£k)	£7,214	£6,588	£3,294	£6,589
Additional costs of providing service:				
Volume			-£158	-£315
Inflation 3% pa			£94	£282
Productivity loss				£1,143
Other			£139	£278
Interest/GIBS/ROCE	-£2	£38	£13	£25
Net surplus / (deficit) for service in year (£k)	-£1,605	£24	£218	£8
Accumulated surplus / (deficit) brought forward from previous period (£k)	-£2,582			
Net surplus / (deficit) for service at year end (£k)	-£4,187	-£4,163	-£3,944	-£3,936

This option raises the following concerns.

- The motorcycling test would be conducted from the planned estate of MPTCs and no further service coverage could be provided.
- It does not address stakeholder concerns regarding the location and availability of motorcycling test facilities.
- This option would not support the modular approach to learning and testing outlined in the recent *Learning to Drive* Consultation paper.

## Benefits

This option would eliminate the in-year deficit but does not address previous accumulated deficits but better reflects the 'user pays' principle for the in-year position.

**Option 3 - Increase the overall test fee to £90.50 per test, apportioned between the two modules and operate a modular test – this is the preferred option.**

With effect from 5 October 2009, the proposed fees for the practical motorcycling test modules are:

Test	New fee
<b>Module 1: Specified motorcycling manoeuvres</b>	
standard weekday	£15.50
standard out of hours	£15.50
<b>Module 2: In-traffic riding assessment</b>	
standard weekday	£75.00
standard out of hours	£88.50
extended weekday	£150.00
extended out of hours	£177.00

The out of hours testing fee for Module 1 is proposed at the same level as the weekday test fee to reflect that, in the short term, site coverage in some areas may only be available out of hours and therefore present a necessity rather than a customer choice. The DSA will review this policy as site coverage improves and may propose a higher out of hours Module 1 test fee from October 2010.

The out of hours fee for the Module 2 test has been proposed at the same marginal level as applied to the practical car test fee. This represents additional cost of overtime and travelling incurred by providing examiner resources outside of normal working times. Module 2 test availability is not limited by location in the same way as Module 1 and therefore customer choice is the main determining factor.

These increases have not taken account of the historic deficits accumulated on this activity which have built up over a number of years. We will review the cost allocation model further before deciding how these costs should be recovered from fee payers and over what period.

## Costs

A detailed breakdown of the fee increases for a modular test is as follows:



	2007-08	2008-09	Apr - Sept 2009
	<i>actual</i>	<i>estimate</i>	<i>estimate</i>
Volume of total fee earning transactions expected (number)	94,079	99,530	45,000
Normal/Out of Hours Fees (£)	£60/£70	£80/£92	£80/£92
Fee income from service (before proposed increase) (£k)	£5,607	£6,650	£3,600
Increased income from new/revised fee (£k)			
Operating budget for service (before input price increases and any other added expenditure) (£k)	£7,214	£6,588	£3,294
Additional costs of providing service:			<b>-£158</b>
Volume			
Inflation 3% pa			£94
Productivity loss			
Other			£139
Interest/GIBS/ROCE	<b>-£2</b>	£38	£13
Net surplus / (deficit) for service in year (£k)	<b>-£1,605</b>	£24	£218
Accumulated surplus / (deficit) brought forward from previous period (£k)	<b>-£2,582</b>		
Net surplus / (deficit) for service at year end (£k)	<b>-£4,187</b>	<b>-£4,163</b>	<b>-£3,944</b>

12 mths Oct 2009-Sep 2010			
	Module 1	Module 2	Total
	60,000	90,000	150,000
	£15.50	£75.00/£88.50	
	£600	£6,300	£6,900
	£330	£450	£780
	£872	£6,589	£7,461
		<b>-£315</b>	<b>-£315</b>
	£39	£282	£322
			£0
		£278	£278
		£25	£25
	£19	<b>-£109</b>	<b>-£90</b>
			<b>-£4,034</b>

## Benefits

This option addresses stakeholder concerns about the implementation of the new motorcycling test, the benefits of this are addressed in the separate Impact Assessment. A modular test will allow for an improved level of customer service and support the modular approach to learning and testing outlined in the recent *Learning to Drive* Consultation paper.

## Cost impact associated with modular testing

The move to a modular test will have a number of impacts and considerations:

- The fees for Module 1 have been calculated on a marginal cost basis assuming that a maximum of 14 tests per day are conducted. Marginal costs are those incurred as a direct result of conducting the test activity such as the:
  - salary costs of the examiners;
  - costs of taking the booking,
  - test materials and equipment
  - recovery over time of the one off costs associated with implementing the new test such as systems and publicity costs. For example there will be development costs associated with new contact centre procedures and booking guidance

By costing Module 1 on this basis, the fee is lower than it would otherwise be if all fixed costs (such as the estate costs) were taken into account. These will be recovered on Module 2 as explained below. This helps compensate customers for the potentially higher cost of travel associated with the site coverage provided by the planned off road manoeuvre areas and will therefore make the proposition more attractive to candidates.

- Module 2 of the test shares testing resources with the practical car test. These costs are both fixed and variable in nature. We have used these known costs of the car practical test as the basis for calculating the cost of Module 2 of the proposed motorcycle test. We have calculated the fee by adding the direct costs associated with the motorcycle element (direct costs of the bike, clothing, radios, skills allowances etc. estimated as an additional £11.50 per test) to the base costs for conducting a standard 7 slot per day test. The fee for Module 2 is therefore calculated on a full cost basis recovering the full range of DSA overheads. This is in line with DSA's normal costing methodology. There is no productivity loss associated with Module 2 because the same number of tests per day (7) are anticipated.

Other additional costs and risks that remain unquantified and uncertain at this time include:

- Overall changes in pass rates and how these impact on the volumes of tests for each module; assumptions have been made in the costing of both modules however actual results may differ.
- Final costs of the estates implications of a changed approach e.g. whether additional costs will fall more specifically on motorcycling test fees
- Lost productivity of examiners and the motorcycle fleet that may result from mixed programmes and increased in-traffic testing locations.

## **Equality, Environmental and Social (Health) Impacts**

We have conducted initial screening tests on the grounds of:

- Competition Assessment
- Small Firms Impact Test
- Legal Aid
- Sustainable Development
- Carbon Assessment
- Other Environment
- Health Impact Assessment
- Race Equality
- Disability Equality
- Gender Equality
- Human Rights, and
- Rural Proofing

We have not identified any adverse effects resulting from this proposal in respect of the category areas mentioned above.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No