

Impact Assessment

Summary: Intervention & Options

Department /Agency:
Driver and Vehicle Licencing Agency

Title:
Impact Assessment of fees increases proposed to balance income and costs for Driver services

Stage: Final

Version: 1

Date: 26 January 2009

Related Publications:

Available to view or download at:

<http://www.dvla.gov.uk/consultations>

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

The current economic conditions have impacted DVLA through a 16% drop in Driver transaction volumes. Over recent years as DVLA has decreased its cost per transaction through automation and delivery of new e-channels, it now has a greater proportion of fixed systems rather than variable costs. It thus faces a £21m drop in income for 2008-09, forecast to repeat in 2009-10. It can reduce its operational costs to bridge most but not all of this gap and has a duty to break even and recover deficits. It therefore seeks to raise fees to assist in breaking even in 2009-10.

What are the policy objectives and the intended effects?

Over recent years, DVLA has rationalised its fee structures and moved to a common fee level for those transactions most commonly undertaken. The fees imperative for DVLA is purely to ensure that the costs of its register management, transactions handling and developments undertaken are met by the fees it charges for its services. Many of its transactions do not bear fees for policy reasons - medical notifications, change of address and other details, Over 70s renewals and vocational licence provision. Hence DVLA has specific powers under an order made under Section 102 of the Finance (No.2) Act 1987 (the Department for Transport (Driver Licensing and Registration Fees) Order 2003 - SI 2003/2994) to calculate its overall costs and set fee levels on individual transactions to cover the costs in total.

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

Three main Options have been considered in detail. These entail (1) adding £2.50 to each of the transactions carrying the Common Fee, (2) adding £5.50 to all chargeable driver fees transactions other than those carrying the Common Fee and (3) adding £2.00 to all driver transaction fee levels. Option 1 is preferred, representing a 5.5% overall uplift in income (note that the relevant fees increase by 14%, but not all fees have been increased) to contribute towards the 16% gap that has appeared between costs and income. This is preferred because it places a comparable challenge on DVLA in terms of cost reductions (whilst recognising the scale of challenge) to Option 2 and more of a challenge than Option 3 whilst leaving the fee for young motorists unchanged to minimise disincentives to driver registration.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

DVLA will monitor Driver transaction volumes carefully during the consultation period and onwards prior to the laying of regulations. Thereafter it will review these on an ongoing basis, together with achievement of its cost reduction targets and development plans. It will revisit the balance between cost and fees in 12 months time to assess appropriate levels for 2010-11.

Ministerial Sign-off For consultation 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: 19/3/2009

Summary: Analysis & Evidence

Policy Option: 1

Description: Increase common fee by £2.50

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' There are relatively small costs in amending the fees scale leaflets printed and changing the fees tables within the Drivers systems. Drivers will be impacted by the rise in fees. The cost to drivers will be £7.5m in total across the common fee transactions.	
	One-off (Transition)	Yrs		
	£ 200,000			
	Average Annual Cost (excluding one-off)			
	£ 7,500,000		Total Cost (PV)	£ 7,700,000
Other key non-monetised costs by 'main affected groups'				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Fees received by DVLA will increase by around £7.5m under current volume forecasts if the DVLA preferred Option is implemented. This partially mitigates the £21m fees income drop estimated as a result of decreased transaction levels. There will be benefits accruing to the Agency and its customers arising from system and infrastructure development which otherwise would have been foregone. This will allow us to maintain service standards to customers	
	One-off	Yrs		
	£ N/A			
	Average Annual Benefit (excluding one-off)			
	£ N/A		Total Benefit (PV)	£ N/A
Other key non-monetised benefits by 'main affected groups' Fees received by DVLA will increase by around £7.5m under current volume forecasts if the DVLA preferred Option is implemented. This partially mitigates the £21m fees income drop estimated as a result of decreased transaction levels. There will be benefits accruing to the Agency and its customers arising from system and infrastructure development which otherwise would have been foregone. This will allow us to maintain service standards to customers				

Key Assumptions/Sensitivities/Risks The lower level of Driver transactions seen during 2008/09 will continue at approximately the same levels through the financial year 2009/10. DVLA will be able to manage its costs down for 2009/10 to cover the remaining £13.5m drop in fees revenue. There is a risk that raising the fee will drive volumes down still further. A recent survey on similar fee increases has suggested up to 11% drop in volumes.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?				
On what date will the policy be implemented?				6 th April 2009
Which organisation(s) will enforce the policy?				
What is the total annual cost of enforcement for these organisations?				£
Does enforcement comply with Hampton principles?				
Will implementation go beyond minimum EU requirements?				No
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?				No
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)
Increase of	£	Decrease of	£	Net Impact £

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

Summary: Analysis & Evidence

Policy Option: 2	Description: Increase all fees (except for common fee transactions) by £5.50
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' There are relatively small costs in amending the fees scale leaflets printed and changing the fees tables within the Drivers systems. Drivers will be impacted by the rise in fees. The cost to drivers will be £7.0m in total across the affected fee transactions.	
	One-off (Transition)		Yrs
	£ 200,000		
	Average Annual Cost (excluding one-off)		
	£ 7,000,000		
Total Cost (PV)		£ 7,200,000	
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'	
	One-off		Yrs
	£ N/A		
	Average Annual Benefit (excluding one-off)		
	£ N/A		
Total Benefit (PV)		£ N/A	
Other key non-monetised benefits by 'main affected groups' Fees received by DVLA will increase by around £7.0m under current volume forecasts if the DVLA preferred Option is implemented. This partially mitigates the £21m fees income drop estimated as a result of decreased transaction levels. There will be benefits accruing to the Agency and its customers arising from system and infrastructure development which otherwise would have been foregone. This will allow us to maintain service standards to customers			

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Price Base	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?			
On what date will the policy be implemented?		6 th April 2009	
Which organisation(s) will enforce the policy?			
What is the total annual cost of enforcement for these organisations?		£	
Does enforcement comply with Hampton principles?			
Will implementation go beyond minimum EU requirements?		No	
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?		No	
Annual cost (£) per organisation	Micro	Small	Medium Large
Are any of these organisations exempt?	N/A	N/A	N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£	Decrease of	£
Net Impact		£	

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

Summary: Analysis & Evidence

Policy Option: 3

Description: Increase all driver fees by £2.00

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' There are relatively small costs in amending the fees scale leaflets printed and changing the fees tables within the Drivers systems. Drivers will be impacted by the rise in fees. The cost to drivers will be £8.5m in total across all fee transactions.
	One-off (Transition)	Yrs	
	£ 200,000		
	Average Annual Cost (excluding one-off)		
	£ 8,500,000		
Total Cost (PV)			£ 8,700,000
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£ N/A		
	Average Annual Benefit (excluding one-off)		
	£ N/A		
Total Benefit (PV)			£ N/A
Other key non-monetised benefits by 'main affected groups' Fees received by DVLA will increase by around £8.5m under current volume forecasts if the DVLA preferred Option is implemented. This partially mitigates the £21m fees income drop estimated as a result of decreased transaction levels. There will be benefits accruing to the Agency and its customers arising from system and infrastructure development which otherwise would have been foregone. This will allow us to maintain service standards to customers			

Key Assumptions/Sensitivities/Risks The lower level of Driver transactions seen during 2008/09 will continue at approximately the same levels through the financial year 2009/10. DVLA will be able to manage its costs down for 2009/10 to cover the remaining £12.5m drop in fees revenue. There is a risk that raising the fee will drive volumes down still further. A recent survey on similar fee increases has suggested up to 11% drop in volumes.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?					
On what date will the policy be implemented?				6 th April 2009	
Which organisation(s) will enforce the policy?					
What is the total annual cost of enforcement for these organisations?				£	
Does enforcement comply with Hampton principles?					
Will implementation go beyond minimum EU requirements?				No	
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?				No	
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		N/A	N/A	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of	£	Decrease of	£
Net Impact		£	
Key: Annual costs and benefits: Constant Prices		(Net) Present Value	

Evidence Base (for summary sheets)

Title of proposal

Increase of fees to contribute towards balancing revenue and costs during transaction volumes downturn. The proposed changes are given in Section 3.11 of the Public Consultation.

Purpose and intended objectives of the measures

DVLA has seen a cumulative 16% decrease in its volumes since the start of 2008/09 and predicts that this pattern will continue for the majority if not all of 2009/10. The impact on revenue of this level of transaction volume decrease is approximately £21m p.a.

DVLA has reduced its headcount and unit costs significantly during the period 2004 to 2008 and the automation / channel shift enabling this change has had two impacts – it has decreased costs but also led to a greater proportion of fixed costs. Hence costs have fallen directly by far less than has income during this volume downturn.

There is a duty to recover deficits and to return a breakeven position overall imposed on DVLA. Therefore it has a major challenge to reduce the gap between income and costs by a far greater extent than provided by natural direct costs reduction. The Vehicles income has also reduced by some 14%, with far less direct variable costs reduction.

Whilst presenting DVLA with a significant cost management challenge to deliver the required balance, the purpose of the measures is thus to contribute around a third of the gap through increase in income.

Objectives

Coverage of £7-8.5m out of the £21m shortfall in projected fee income within Drivers for 2009/10.

Background

The fee review, conducted in 2003, brought together the costs of the driver licensing and vehicle registration systems that had historically been considered separately and this joint consideration was underpinned by regulation under the Finance (No.2) Act 1987. The new fee structure was set to recover the combined costs by considering the driver and vehicle costs as a consolidated whole and allowing fees to be set overall to cover the full costs envelope. This principle was continued in 2006 and 2007 and the current proposals do not vary this regime.

The principles established within the 2003 and 2006 consultations were:

- to simplify processes for the motoring public and DVLA
- to encourage driver registration and learning to drive
- to facilitate e-services through simplified transactions and
- to ensure offenders cover the full processing costs of issuing of new licences.

In 2007 a common fee level of £17.50 was introduced for 5 Driver transactions:-

- Provision of a duplicate for a lost, stolen or destroyed driving licence;
- Provision of a “vanity” exchange - the photograph is changed on the licence;
- Exchange of a driving licence for removal of endorsements;
- Processing the 10-yearly renewal of photograph;
- Exchanging a paper licence for a photocard licence.

Risks

- Fee increases, even of the relatively modest amounts proposed, could impact on compliance, which in turn could see a further fall in fee income.
- The proposed fee rise may be unattractive in the current economic climate and generate a good deal of adverse media interest.

OPTIONS

Option 1 – Raise Common Fee Level by £2.50 (to £20)

- Option 1 would generate approximately £7.5m of additional fee income on the basis of the reduced volumes forecast. It therefore represents, alongside Option 2 below, a greater challenge for DVLA in terms of cost management to cover the remainder of the £21m fee income reduction than would Option 3.
- When introduced last year, the £17.50 fee was already recognised as providing a lower level of fees in total than the previous fee regime, but the decrease in income has been significantly enhanced by the volume decreases seen.
- However, from the DVLA perspective it avoids a further increase to the First Application for Provisional licence fee targeted mainly on the youngest drivers. We wish to ensure these potential drivers start and remain within the registration system.
- Although this option provides DVLA with a greater level of challenge, it is on balance the DVLA preferred option.
- The increase represents an increase of 14%.

Option 2 – Raise all Driver Fees (except Common Fee Level) by £5.50

- This option generates £7.0m contribution from income to close the gap, roughly the same as for Option 1. The common fee level, introduced only in 2007, would be left untouched.
- However, this option would entail a further increase to the First Application for a Provisional Licence (FAP) fee (by 11%) and may have a negative impact on the number of unlicensed drivers.

Option 3 – Raise all Drivers fees by £2.00

- This reduces the impact for each individual transaction, but spreads the burden right cross all fee payers. Since all fee bearing transactions would be impacted this would raise around £8.5m additional income on the same volume assumptions as the other two options. An average increase of around 7% across the board (individual increases vary between 2.2% and 11.4% depending on the transactions).
- This option does, however, mean that the First Application for Provisional licence fee would rise again, although by only 4%, whereas DVLA had hoped to keep this stable over the next few years.

For all options, the increases needed are above what is needed to cover inflation. The increases are set to recover a portion of the fee income that would be lost as a result of lower forecast fee bearing transaction volumes.

COSTS AND BENEFITS

Business Sectors Affected

It is the assumption in this proposal that driving licence fees are a matter for individual drivers. We acknowledge that some organisations choose to pay their drivers' fees but, in the overall context of this consultation and with the continuing free issuing of vocational licences and processing of additional entitlements, the effects on the various business sectors will be negligible.

Assumptions

The two options are framed to recover the same level of funding overall. The financial model used to compare income with costs contains the following main assumptions about the volume of transactions that DVLA will process in 2009/10.

Transactions at Common Fee Level	Predicted Volumes 2009/10	
	Original (millions)	Revised (millions)
Replacement of lost, stolen or destroyed	1.53	1.19
Removal of endorsements	0.03	0.03
“Vanity” exchanges	0.02	0.02
10 year renewals of photocard	1.60	1.60
Transfers from paper to POL	0.15	0.15
TOTALS	3.33	2.99

The calculations are thus simple in terms of revenue generated under Option 1 – 2.99m at £2.50. For Options 2 and 3 we have used predicted volumes for each of the transaction streams and fee levels identified in the Public Consultation (3.11). We have rounded the figures for ease of handling.

Benefits

Option 1: Retention of common fee level principle – this has been retained in all three options. No impact on new learners. Increased income take is within required range and presents a level of challenge to DVLA to achieve the balance through greater efficiency and prioritisation of development expenditure.

Option 2: Produces the lowest value for extra income generated. No effect on the common fee level.

Option 3: Least individual impact on each Driver undertaking transactions. Lowest in terms of challenge to DVLA on cost reductions.

Costs

Option 1: No change for businesses. Represents around 14% increase (£2.50) for individual Drivers.

Option 2: No change for businesses. Has the greatest impact on new learners who will bear an 11% increase in fee.

Option 3: No change for businesses. Impacts on new Drivers as (small) additional obstacle in terms of registration. Represents around 7% overall fee increase (of £2) added equally for all transactions.

EQUITY AND FAIRNESS

The amendments proposed continue with the principle of fair and equitable recovery of costs, whilst ensuring that changes in fees do not impede policy delivery. The burden in Options 1 and 2 rest with those undertaking transactions involving the common fee – whilst in Option 3 this is spread right across drivers equally (if not in proportion to original fee levels).

SMALL FIRMS IMPACT TEST

There appears to be no impact from these proposals.

COMPETITION ASSESSMENT

There appears to be no impact from these proposals.

ENFORCEMENT AND SANCTIONS

There appears to be no impact from these proposals.

MONITORING AND REVIEW

DVLA monitors its own financial position continuously. Its fees structure is formally reviewed on an annual basis. Interested parties are consulted as part of this review process.

RACE EQUALITY

There appears to be no impact from these proposals.

DISABILITY EQUALITY

There appears to be no impact from these proposals.

GENDER EQUALITY

There appears to be no impact from these proposals.

Specific Impact Tests: Checklist

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

Summary

DVLA has a duty to set its fees to recover the costs of DVLA's activities. The volumes of transactions have decreased significantly due to the economic downturn and this is predicted to continue to impact through 2009/10. However, due to the fact that chargeable transactions have decreased far more than non-chargeable transactions and the increasing automation of DVLA activities that increases the proportion of fixed costs, the balancing of the budget needs to be achieved through additional income through a fee increase.