Vehicle & Operator Services Agency

Driver & Vehicle Agency
An Executive Agency within the Department of the Environment

# Fees for HGV and PSV testing and operator licensing for 2011

# Consultation report

Contents



An executive agency of the Department for Transport

Saving lives, safer roads, cutting crime, protecting the environment

# 1. Introduction

## 1.1 Purpose of consultation

1.1.1 The consultation ran from 16 June until 28 July 2011 and sought views on proposals to revise a number of fees as summarised below. The changes mentioned apply only to fees payable to the Vehicle and Operator Services Agency:

- no general rise in statutory fees for the second year running;
- location differentiation – i.e. reductions in fees which VOSA (Vehicle and Operator Services Agency) charges for tests non-VOSA test facilities[1] balanced by increases fees at VOSA facilities to reflect the costs to the agency – this would also affect fees for Reduced Pollution Certificates (RPCs) issued at Driver & Vehicle Agency (DVA) facilities in Northern Ireland;
- National Register funding – increases in HGV and PSV operator licence fees to cover the cost of a national register of HGV and PSV operators and their transport managers, to help level professional standards across the EU;
- PSV O licence application fee equalisation – reductions in fees for applications for standard PSV operator licences balanced by increases for applications for restricted licences to rebalance fees to reflect the cost of processing those applications;
- round fees to the next highest pound;
- voluntary service fee increases – fees for voluntary services, such as brake checks and non-statutory roadworthiness tests, to rise in line with general cost increases in addition to the effects of changes to test fees at VOSA facilities.

1.1.2 In addition the consultation sought views on:

- "core hours" – views on proposals to alter the hours during which "out of hours" supplements are charged in GB for RPC and Low Emission Certificates (LEC) and remove redundant provisions in respect of out of hours services which are not available in Northern Ireland from DVA and;
- funding of certain activities of Traffic Commissioners (TCs) – to give stakeholders the opportunity to express their views about the relative importance and value they place on core regulatory work of the Commissioners compared with 'softer' activities they carry out around engaging with the industry and to provide evidence to assist the VOSA Chief Executive in accounting to Parliament for the expenditure – **no** changes were proposed.

1.1.3 The consultation also asked stakeholders if they could provide information to improve breadth and/or accuracy of Impact Assessments.

[1] Non-VOSA test facilities take two forms: Designated Premises (DPs) have existed for many years but have disadvantages for both operators and VOSA in that the relationship is ill-defined; more recent non-VOSA facilities are Authorised Testing Facilities (ATFs) whose relationship with VOSA is more clearly defined in a contract which includes features such as more formal timetabling arrangements, compensation for the ATF operator if VOSA fails to attend an agreed test session and minimum income guarantees to VOSA for each testing session.

### 1.2 Who did we ask?

1.2.1 The consultation was published on the DfT website and accessible from VOSA and NIDirect websites. Organisations and individuals on VOSA's fee consultation list were told about the consultation directly by email or letter. Operators of non-VOSA test facilities were advised by email that the consultation had been launched. A press notice was sent to trade publications known to the VOSA press office. Those registered to receive electronic "alerts" from VOSA's were informed by an alert. The July edition or "Moving On" which is circulated to all holders of HGV and PSV operator licences included an article on the consultation.

## 2 Layout of this document

2.1 A high level summary of the responses on each of the above areas and planned actions in light of those responses is given in the Executive Summary below. A more detailed summary of responses to each question follows in Section 5 of this report.

2.2 Where respondents chose not to use the consultation response form supplied but their response seems to relate to a specific question, VOSA have summarised that part of their response against the appropriate question. Where it seemed clear that their comments supported one or other of the answers listed their comment has been attributed to that answer. Where their answer did not appear to clearly be either of the choices given, their comments are summarised under "related comments" heading against the question to which their response appears to relate. Where their comments relate to multiple questions or are on subjects beyond the scope of the questions asked, their comments are summarised in the "General comments" section 6 of this summary.

## 3 Executive summary of responses

In total 22 respondents provided comments in response to the consultation. The breakdown of respondents was as follows:

| | | |
|---|---|---|
| Businesses | small to medium | 1 |
| | large | 4 |
| Representative Organisations | | 8 |
| Trade Unions | | 1 |
| Interest Groups | | 1 |
| Local Government | | 2 |
| Central Government | | 1 |
| Police | | 0 |
| Public | | 1 |
| Others | | 3 |
| | Total | 22 |

NOTE:
- Respondents who offered no comments on the proposals but wished to record their wish to continue to receive such consultations or did not wish their responses to be published and attributed are not included in the numbers above or summary of responses.
- Where a response was on behalf of a number of individuals or bodies it was treated for analysis purposes as a single response (e.g. the response from the Traffic Commissioners was signed by six TCs – that from VOSA trade unions was on behalf of 3 unions)

- A small number responded to DfT centrally on question 16. Their responses are included here.

## 3.1 No general increase (Q1)

*Responses*

3.1.1 Eleven respondents supported the proposal for no general increase, several commenting on VOSA's efficiency savings. One respondent disagreed, raising concerns that efficiency savings meant job losses, which would restrict VOSA's ability to undertake work.

*Consideration*

3.1.2 Recognition of and support for efforts to control costs are noted. Whilst the trade unions' concern for jobs is understandable, it should be noted that, to date, staff reductions have been achieved without compulsory redundancies. Every effort is being made to ensure that front-line services are protected.

*Decision*

3.1.3 There will be no general increase in VOSA fees.

## 3.2 Location differentiation (Q2 to 4)

*Responses*

3.2.1 Ten respondents supported continuing to move towards the cost of VOSA test facilities being met by those using them. Two respondents did not support this policy - one generally and one particularly at this time.

Opinions on the preferred option of reducing fees at non-VOSA by 4% and increasing those at VOSA by 4% were more mixed with six supporting the preferred the proposal and four opposing it.

3.2.2 One respondent considered that the non-preferred option of increasing fees at VOSA by 11.6% and reducing those at non-VOSA by 5.8% was too steep an increase, whilst expressing no opinion on the preferred option.

Nine respondents favoured keeping DVA fees for RPCs in Northern Ireland at the same level as at VOSA facilities in GB – one disagreed with that view.

3.2.3 Comments made across the two questions majored on the desire that VOSA should ensure adequate alternative provision in an area before closing its own test facility and on the fairness of differentiation when not all operators had the option of taking their vehicles to a non-VOSA facility.

3.2.4 One respondent believed that fees should not be set on the basis of "speculative volumes" whilst VOSA does not fully understand how the market will develop or whether newer entrants will have the same enthusiasm as early adopters.

3.2.5 One respondent considered it inappropriate to increase fees for RPC and LEC certificates which were issues without physical examination to the same level as those involving tests at VOSA facilities.

3.2.6 No formal responses were received from those operating non-VOSA test facilities other than those for whom vehicle operation was a prime part of their business.

*Consideration*

3.2.7 While recognising concerns about the effect of increases for tests at VOSA on those with no access to non-VOSA facilities these must be balanced against the effect on those using non-VOSA facilities who are paying the non-VOSA facility provider for the test facilities

(the pit fee) yet still contributing to the cost of the VOSA estate which they don't use. VOSA could not afford to lower its fees for testing at non-VOSA facilities without increasing fees for tests at VOSA facilities.
As more of the operating costs of VOSA facilities are transferred to users and more tests move away from those facilities, the unit cost of testing at VOSA rise because fixed costs are spread over fewer tests. If VOSA continued to maintain unused capacity it would incur wasteful costs which would make those rises considerably greater than would have been the case if facilities were closed.

3.2.8 Although not raised by any respondents, a further factor potential non-VOSA facility providers have raised with VOSA is that many businesses considering setting up facilities see as unfair competition the fact that the fee charged for a test at VOSA is less than the VOSA fee for a test at a non-VOSA facility *plus* the pit fee. They are therefore reluctant to invest in a non-VOSA facility until the closure of their local VOSA facility is announced or the differential in VOSA fees is considerably wider than is currently proposed. Thus, both the rate of closure of VOSA facilities and the rate of change of differentials have an effect on the rate of establishment of new non-VOSA facilities; and therefore the availability of savings to many businesses from more convenient test locations.

3.2.9 Rate of change in fee differentials and of closure of VOSA facilities is therefore a complex balance. The approach taken in the preferred option (and implicitly supported by the majority of respondents) of gradual increases in differentials, which limit increases for those using VOSA facilities, is therefore considered appropriate.

3.2.10 In considering the FTA's comment that fees should "not be based on speculative volumes", scrutiny of, and consultation on, proposals to change statutory fees and charges mean that development of fee change proposals has to start at least 18 months before the changes take place. Thus assumptions have to be made on how many tests will be carried out and where they will be carried out.

3.2.11 In respect of facility closures, VOSA has a robust process in place before closure is announced to ensure that there is a high probability, given the stimulus of a closure announcement, that there will be sufficient non-VOSA facility capacity to replace the VOSA capacity being removed. If we waited until alternative provision was in place before announcing a closure, supply of non-VOSA facilities would reduce, if not dry up completely, leaving the worst of both worlds with high cost under-utilised VOSA facilities and only limited choice of non-VOSA facilities providing service nearer to customers.

3.2.12 General support for keeping RPC fees at DVA in line with those at VOSA is noted.

3.2.13 We accept that although increasing fees for RPC and LEC for which there is no physical inspection to the same level as those where a physical inspection takes place at a VOSA facility makes for a simpler fee structure, it is probably an inappropriate burden on those using this service.

*Decision*

3.2.14 The testing element of fees for tests at non-VOSA facilities will be reduced by 4% and that for tests at VOSA facilities will be increased by 4%. RPC and LEC fees involving tests at non-VOSA will also fall by 4%; those at VOSA facilities will rise by 4%. RPCs at DVA facilities in Northern Ireland will increase by 4% in line with the increase at VOSA facilities in GB. Fees for RPC and LEC applications which are determined without physical examination will not be changed.

### 3.3 National Register Funding (Q7 to 11)

*Responses*

3.3.1 Several respondents considered that the National Register (NR) should be funded from taxation rather than fees and one suggested that it be funded by hypothecation of penalties imposed on foreign drivers.

3.3.2 In respect of the options proposed for funding from HGV fees:

- five considered that funding should come from all licence types; one favoured limiting the funding to those licence types details of which will be included in the NR unless such differentiation was disproportionately costly to administer; one respondent suggested that rather than increase fees for variations, changes of transport manager should be subject to the same fee as a variation application;
- five considered that applicants for variations to existing licences which contributed to NR funding should also contribute; two felt that variation applicants should not contribute.

3.3.3 In respect of options for funding from PSV fees:

- four favoured including applicants for all licence types, whilst three supported exempting restricted licences;
- opinion was split six to two in favour of including applicants for variations; one respondent, qualified their response in favour of including variations by suggesting that the contribution should come from making more variation applications chargeable rather than increasing the fee
- five favoured including applicants for special restricted licences – two were of the opposite view.

3.3.4 Other comments included:

- VOSA already held operator and transport manager details so there should be no extra cost;
- VOSA should fund the changes by selling its existing database system to other Member states; and
- that fees should reduce when the costs of creating the NR had been recovered in 5 years time.

*Consideration*

3.3.5 It was noted in the consultation document that VOSA expected to be able to reduce the cost of creating and maintaining the National Register as understanding of the work involved developed. This process has resulted in the total cost to be recovered from fees over a 5 year period being reduced from £1.1m to £886k ( a reduction of nearly 20%).

3.3.6 Funding of the register has followed the existing policy of VOSA / DfT that the costs of VOSA services be covered by fees unless the agency is requested to carry out specific work by the Department that falls outside the scope of its statutory services.

3.3.7 The fundamental issue with the fee funding options is whether to treat this as part of the general cost of running the operator licensing system and therefore spread across all within the system; or as a cost specific to particular licence types and apply it only to them. In the former case all pay slightly more; in the latter case the cost for some stays the same but the increase for others is greater.

3.3.8 Taking into account that the majority supported including variations in the contributors the main options become:

- o spread over all O licence fees (meaning a revised increase of 1.6% across the full range); or
- o including only fees for licence types which will be included in the NR (meaning 3.1% across the narrower range of fees).

3.3.9 Only 12 of the 22 respondents expressed a view on whether funding for the national register should be levied across all licences or applied only to standard licences. Of those responses, two trade bodies – RHA and CPT – supported spreading the cost across all licences (FTA and BVLRA felt that it should be funded through taxation). We believe that the existence of the national register has the potential to provide a positive contribution to our targeted approach to enforcement overall through enhanced information about significant infringements by GB operators when abroad, and that we may be able to demonstrate that over time. It can therefore be argued that there would be better levelling of the playing field for GB operators. In addition improved reporting of serious infringements by GB standard licence holders when abroad will benefit restricted licence holders by reducing the likelihood of the latter being targeted for enforcement checks. Seeing the national register as only an administrative tool for operator licensing information exchange and therefore having charges applicable only to standard licence holders could seem narrow-sighted.

3.3.10 It is considered appropriate to make a special case of fees to holders of special restricted PSV licences who provide registered local services using licensed taxis and private hire cars since they also require to be licensed by the Local Authority in whose area they operate.

3.3.11 The suggestion to charge for notification of transport manager changes would need a change to primary legislation. Given limitations in Parliamentary time, it is not seen as a priority at this time.

3.3.12 As explained in the consultation document, details not currently held electronically about operators and transport managers are required and details about restricted licences are not required – this is why there is additional cost.

3.3.13 While the idea of selling “OLBS” to other Member States is superficially attractive, the need to translate input and output screens into the language of the country and the low likelihood that anyone implementing a system now would want to use coding in computer languages of 10 or more years ago is very slim.

3.3.14 The majority of the costs being recovered via this fee increase will certainly be removed from the O licence system cost base 5 years from the implementation of this increase. It is, however not possible, this far ahead to commit to equivalent fee reductions at that time because other investments will need to be made which will alter the cost base. One obvious example is that the OLBS system will almost certainly have to have been replaced by then altering the depreciation attributed to operator licensing.

*Decision*

3.3.15 All fees for both standard and restricted HGV and PSV operator licences will be increased by 1.6% to fund the National Register

### 3.4 PSV O licence fee equalisation (Q12 & 13)

*Responses*

3.4.1 All eight who answered favoured equalisation. Four favoured phasing over 3 years as being easier for operators to adjust; three favoured single step change, one mentioned the possibility of admin cost savings with a single step. One respondent suggested that it would be a disservice to the public and industry to reduce any fee income from PSV sources.

*Consideration*

3.4.2 The single step increase for restricted licence applicants is about the cost of about 35 litres of diesel at retail prices, a small proportion of the cost of operating even one PSV. This is a one-off cost for a new licence - the “easier to adjust” point would be stronger for a recurring cost. There would be savings of up to £13,000 in resource for both VOSA and lawyers by making the change as a single step.

3.4.3 Increasing restricted licence application fees without a corresponding reduction in standard application fees has obvious attractions to VOSA’s finances but is considered incompatible with wider Government aims to minimise the cost of regulatory regimes.

*Decision*

3.4.4 On balance fees will be equalised in a single step.

### 3.5 Rounding to the next highest pound (Q14)

*Responses*

3.5.1 Views on this were evenly split – six on either side. Those opposed to the proposal that made additional comments generally supported rounding to the nearest pound.

*Consideration*

*3.5.2* Six respondents (including RHA) favoured the proposed change in rounding policy that would see VOSA round fees to the next highest pound (rather than the nearest pound as now); six (including CPT and FTA) did not. The proposed change would reduce VOSA’s deficit by an estimated £500k (0.7% of income from affected fees) – but add only 0.005% to estimated total vehicle operating costs.

3.5.3 While recognising that changing the rounding policy would add to industry’s costs in the short term, it hastens recovery of VOSA’s deficit.

Decision

3.5.4 Change VOSA’s rounding policy to round fees which are changing to the next highest £1.

### 3.6 Voluntary service fee increases (Q15)

*Responses*

3.6.1 Six favoured the proposal to increase fees for voluntary services closely associated with HGV and PSV annual testing by 8.7% and for other voluntary services by 4.7% versus four who did not. One opponent considered that private sector comparison was invalid because menu pricing of specific services was not normal – such services were bundled with other services in the private sector.

*Consideration*

3.6.2 While acknowledging the importance of these services to some customers, the prime consideration for these voluntary services must be to minimise risk of non-compliance with Treasury requirements to fully cover costs including a reasonable return on capital.

3.6.3 Noting the point that the transparency of menu pricing of services may not be common practice, the cost of the bundle of services will still take account of the individual services within the bundle.

*Decision*

3.6.4 To ensure compliance with Treasury guidance, increase voluntary fees for services closely associated with statutory annual testing by 8.7% and other voluntary services by 4.7%.

### 3.7 Core hours (Q5 & 6)

*Responses*

3.7.1 All eight who answered supported the change to core hours for RPC and LEC in GB. Four supported and one opposed removal of the redundant NI provision.

*Consideration*

3.7.2 DVA does not offer out of hours services so removal of this provision removes an ambiguity. Should that change the provision could be re-introduced.

*Decision*

3.7.3 Change core hours for RPC and LEC in GB and remove redundant NI provision.

### 3.8 Funding of Traffic Commissioner activities (Q16)

*Responses*

3.8.1 All 13 respondents who specifically answered this question were content that operator licence fees should fund the TC activities described. Some of these and several others who did not specifically answer the question considered its inclusion in a VOSA fee consultation inappropriate. Many examples were provided of why respondents considered these activities vital to ensure mutual understanding between TCs and the industry they regulated.

*Consideration*

3.8.2 DfT Ministers consider it is important that we have transparency and visibility of the costs associated with Traffic Commissioner activities that are funded through operator licensing fees which VOSA collect. Ministers asked VOSA to include a question to give industry and other stakeholders the opportunity to express their views about the relative importance and value they place on the core regulatory work of the Commissioners compared with the ‘softer’ activities they carry out around engaging with industry more generally.

Responses received clearly demonstrate a high level of support for the non-core work Traffic Commissioners undertake, despite any additional costs that this may impose such as from the additional use of Deputy Traffic Commissioners.

The section on traffic commissioner activities and the question posed was not included to bring into question the independent nature of the Traffic Commissioner public appointments. DfT Ministers have made it clear that they recognise the benefits of an independent Traffic Commissioner system and that there are no proposals to undermine the independence of Traffic Commissioners in any way.

*Decision*

3.8.3 Not applicable because no change was proposed.

### 3.9 Information to improve future Impact Assessments (Q17 & 18)

*Responses*

3.9.1 No respondents were able to provide additional information, though one suggested that the Competition Commission may be able to help.

*Consideration*

3.9.2 VOSA will seek information from the Competition Commission in preparing the next round of fee change IAs.

## 4. Summary of responses by question

| ***Q1 Do you agree that VOSA should not apply any general fee increase in 2011/12?*** |
|---|
| **Yes: (11)** James Smith (Denny) Ltd; Stagecoach Group plc; Transport Scotland; Traffic Commissioners; FirstGroup plc UK Bus; Transport for London; Confederation of Passenger Transport UK; Skinners of Oxted; Freight Transport Association; Institute of Transport Administration; Road Haulage Association<br><br>**Comments:**<br>**Stagecoach:** Changes in other Government funding and past above inflation increases in VOSA fees noted; no increases proposal welcomed.<br>**Transport for London:** intention to share efficiency savings with customers and not applying inflationary cost increases for delivering statutory services is clearly welcome<br>**Confederation of Passenger Transport UK:** Following strides made by VOSA to improve efficiency increases should be kept to a minimum<br>**Freight Transport Association:** welcomes no general fee increase and on-going efforts to control costs internally<br>**Institute of Transport Administration:** Fees should be kept neutral. |
| **No: (1)** VOSA trade unions<br><br>**Comments:**<br>**VOSA trade unions:** Fee element of VOSA income around 90% - proportion likely to increase as DfT funding is reduced – additional costs (with 5% inflation) must be met be "efficiency savings" – "efficiency savings" mean loss of staff seriously restricting VOSA's ability to undertake its work. |
| ***Related comments***<br><br>**British Vehicle Rental and Leasing Association:** concerned about VOSA's financial position and that the industry is being expected to assist in recovery – ask that all is done to ensure further operating efficiencies are looked at to maximise cost savings and reduce the deficit – expect fees to reduce once the deficit has been paid off – pleased that the enforcement element of test fees is not increasing given their previous views. |

| **Q2 Do you agree that VOSA should continue to move towards the cost of VOSA testing facilities being met by those using them?** |
| --- |
| **Yes: (10)** James Smith (Denny) Ltd; Stagecoach Group PLC; Transport Scotland; FirstGroup plc UK Bus; Transport for London; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration; Road Haulage Association; British Vehicle Rental and Leasing Association<br><br>**Comments:**<br>**Transport for London:** in principle TfL supports this aim, specifically the overall strategy of improving customer service and reducing costs to customers.<br>**Confederation of Passenger Transport UK:** This should only be done when there are sufficient non-VOSA facilities available to all operators across the country.<br>**Institute of Transport Administration:** costs of VOSA facilities should be met by those who use them.<br>**British Vehicle Rental and Leasing Association:** agree in principle with increasing test fees by a higher margin for tests at VOSA. |
| **No: (2)** Freight Transport Association; VOSA trade unions<br><br>**Comments:**<br>**Freight Transport Association:** Support bringing annual tests closer to the point of maintenance – concerns on execution being raised with programme team and Chief Exec – notes uncertainty on enthusiasm for private sites to become established and whether early adopters energy will be replicated going forward – fee structures should not be based on speculative volumes – concerns that location differentials are unfair to those who have no reasonable non-VOSA option – opposes the idea of location differential test fees, particularly at this early stage of the transformation programme – may become viable later.<br>**VOSA trade unions:** VOSA needs to maintain GB-wide presence to support those required to use its services – all should contribute to cost of providing a significant network of VOSA sites – analogous to taxpayers continuing to pay for NHS even if they use private facilities |

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|---|
| ***Q3 Do you agree that the move towards the cost of VOSA testing facilities being met by those using them should be phased with:***<br>o ***the testing element of test fees (and RPC and LEC fees) at non-VOSA facilities and DPs being reduced by 4%; and***<br>o ***those at VOSA being increased by 4% in 2011?*** |
| **Yes: (6)** James Smith (Denny) Ltd; Stagecoach Group PLC; Transport Scotland; FirstGroup plc UK Bus; Skinners of Oxted; Road Haulage Association<br><br>**Comments:**<br>**Road Haulage Association:** adequate alternative facilities must be made available prior to closure of existing VOSA facilities or lanes within those facilities – member feedback that those in some parts of the country are having to wait longer or travel further to remove prohibitions – non-VOSA facility concept was to reduce time and mileage for operators. |
| **No: (4)** Confederation of Passenger Transport UK ; Freight Transport Association; Institute of Transport Administration; VOSA trade unions<br><br>**Comments:**<br>**Confederation of Passenger Transport UK:** understands reason behind proposals – many operators unable to access a non-VOSA facility therefore unfair and unacceptable that they should have to pay more for tests at VOSA – recommends that this proposal is postponed until non-VOSA facilities are easily accessible to all operators.<br>**Freight Transport Association:** See comments at Q2<br>**Institute of Transport Administration:** all fees should be level.<br>**VOSA trade unions:** this approach will disadvantage huge areas of industry VOSA is here to serve – VOSA unions do not agree that private sector should provide facilities and VOSA provide the testing staff – moves to encourage presenters to take vehicles away from VOSA sites will leave areas of the country (mainly rural or socially deprived) with no private sector facilities disproportionately affected – "high" earning VOSA sites subsidising "low" earning VOSA sites results in standard service regardless of location – history teaches that short term knee jerk reactions do little to benefit the nation. |
| **Related comments**<br><br>**Stagecoach:** The consultation doesn't explain how the additional £2.2m costs associated with the transfer of tests to non-VOSA facilities arises. VOSA should be revising employees terms and conditions including their place of work.<br>**VOSA Comment:** Paragraph 48 of the Impact Assessment "Lorry, bus and coach examinations fees – location differentiation" which was annex A to the consultation explains that these costs arise from additional staff needed because of travelling time and less efficient layout of some facilities and of travel costs. These costs arise, to some extent, regardless of employee terms and conditions because fewer non-VOSA facilities have sufficient turnover to support permanently based VOSA staff than existing VOSA facilities and . Not all can even support full-day testing sessions. Holiday and sickness relief are also issues which mean that utilisation of VOSA staff is inherently less efficient<br><br>**Transport for London:** Whilst welcoming the proposed reduction in test fees at non-VOSA facilities TfL considered it inappropriate to increase fees for RPCs and LECs where no physical examination was necessary<br><br>**British Vehicle Rental and Leasing Association:** do not believe that fees at VOSA |

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| should increase as dramatically as in option 1 of the Impact Assessment as they would unduly penalise those operators who do not have non-VOSA sites nearby – recommend that fees at VOSA should increase dramatically if there are operators who have no choice but to use VOSA. |

| ***Q4 Do you agree that to avoid unnecessary complication, RPC tests conducted at government facilities throughout the UK continue to attract a common fee?*** |
|---|
| **Yes: (9)** Stagecoach Group PLC; Transport Scotland; FirstGroup plc UK Bus; Transport for London; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration; VOSA trade unions; Road Haulage Association<br><br>**Comments:**<br>**Transport for London:** avoids complication and confusion for customers<br>**VOSA trade unions:** public should get service for the same cost regardless of location. |
| **No: (1)** James Smith (Denny) Ltd; |

| ***Q5 Do you agree to the removal of provision for Out of Hours supplements in Northern Ireland?*** |
|---|
| **Yes: (4)** James Smith (Denny) Ltd; FirstGroup plc UK Bus; Institute of Transport Administration; Road Haulage Association |
| **No: (1)** VOSA trade unions |

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|---|
| ***Q6 Do you agree that VOSA should change the core hours for RPCs and LECs to align with those for annual tests?*** |
| **Yes: (8)** James Smith (Denny) Ltd; Stagecoach Group PLC; FirstGroup plc UK Bus; Transport for London; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration; Road Haulage Association<br><br>**Comments:**<br>**FirstGroup plc UK Bus:** contingent on no consequent increase being passed on to operators.<br>**Transport for London:** unhelpful to maintain different out of hours periods for different services often carried out at the same time.<br>**Confederation of Passenger Transport UK:** sensible if core hours for RPCs and LECs are aligned to those of annual tests.<br>**Institute of Transport Administration:** core hours should be in line. |
| **No: (0)** |

| ***Q7 Do you think that the HGV fees contributing to the cost of the National Register should include all licences or only standard licences?*** |
|---|
| **All: (5)** James Smith (Denny) Ltd; Skinners of Oxted; Institute of Transport Administration; Road Haulage Association; British Vehicle Rental and Leasing Association<br><br>**Comments:**<br>**Institute of Transport Administration:** Cost should be borne by all, no matter the licence type.<br>**British Vehicle Rental and Leasing Association:** all operators should help fund the NR, therefore support 2% increase across all licence types including variations. |
| **Standard only**: **(1)** Traffic Commissioners<br><br>**Comments:**<br>**Traffic Commissioners:** In that the national register only applies to standard licence holders it would appear equitable to restrict the fees increase to those licences unless the cost of differentiating the fees was disproportionate. |
| **Related comments**<br>**British Vehicle Salvage Federation**: considered that VOSA already held operator and transport manager details so there should be no additional costs to meet the EU obligation; therefore did not support any fee increase as a result of EU changes.<br><br>**Freight Transport Association:** Recognised the need for the National Register – broadly exporting GB best practice to the rest of Europe – recognised the principle of differentiating fees to reflect who would "use" the register –believe the principle inappropriate in this case – GB already has OLBS funded by domestic fees - the National register is a cross border enforcement tool to enable those who travel abroad to be better targeted by foreign enforcement agencies (however doubts that this will be effective) – funding should come from those who VOSA target rather than from GB operators funding their own targeting abroad – should therefore be funded by hypothecation of fixed penalties and deposits collected from foreign operators.<br>VOSA should be trying to licence the use of OLBS to other member states seeking to establish national registers for the first time.<br>Profile of monetised costs shows transition costs ending in year 5 – would welcome confirmation that there will be a matching fee reduction. |

| *Q8 Do you think that the HGV fees contributing to the cost of the National Register should include applications for variations to licences for which fees are charged?* |
|---|
| **Yes: (5)** James Smith (Denny) Ltd; Transport Scotland; Traffic Commissioners; Road Haulage Association; British Vehicle Rental and Leasing Association<br><br>**Comments:**<br>**British Vehicle Rental and Leasing Association:** all operators should help fund the NR, therefore support 2% increase across all licence types including variations. |
| **No: (2)** Skinners of Oxted; Institute of Transport Administration<br><br>**Comments:**<br>**Institute of Transport Administration:** Fees should only be applied to fully authorised licences. |

| *Q9 Do you agree that application fees for restricted PSV operator licences should not be increased to contribute to the cost of the National Register?* |
|---|
| **Yes: (3)** James Smith (Denny) Ltd; Transport Scotland; FirstGroup plc UK Bus<br><br>**Comments:**<br>**FirstGroup plc UK Bus:** inappropriate to pay when they are not on the NR |
| **No: (4)** Stagecoach Group PLC; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration<br><br>**Comments:**<br>**Stagecoach:** the national register should be funded from taxation rather than fees – understand this is being done in other Member States – feel strongly that if the cost of the national register is to be borne by the industry they should be spread equally amongst all operators<br>**Confederation of Passenger Transport UK:** cost of a national register if it is to be applied should be applied equally to all O licence holders regardless of category.<br>**Institute of Transport Administration:** If you use a licence you should contribute to the register. |

| ***Q10 Do you agree that application fees to vary PSV operator licences should be increased to contribute to the cost of the National Register?*** |
|---|
| **Yes: (6)** James Smith (Denny) Ltd; Stagecoach Group PLC; Transport Scotland; Traffic Commissioners; Skinners of Oxted; Institute of Transport Administration<br><br>**Comments:**<br>**Stagecoach:** although not supporting fee funding of national register think small variation of fees justified to amend data – feel strongly that if the cost of the national register is to be borne by the industry they should be spread equally amongst all operators |
| **No: (2)** FirstGroup plc UK Bus; Confederation of Passenger Transport UK<br><br>**Comments:**<br>**FirstGroup plc UK Bus:** only additions or deletions to the pool of operators trigger material change to register therefore inappropriate for existing operators to pay part of cost.<br>**Confederation of Passenger Transport UK:** fee should not be increased but should be applied in future if an operator changes transport manager. |

| ***Q11 Do you agree that application fees for special restricted PSV operator licences should not be increased to contribute to the cost of the National Register?*** |
|---|
| **Yes: (2)** Transport Scotland; FirstGroup plc UK Bus<br><br>**Comments:**<br>**FirstGroup plc UK Bus:** inappropriate to pay when they are not on the NR |
| **No: (5)** James Smith (Denny) Ltd; Stagecoach Group PLC; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration<br><br>**Comments:**<br>**Stagecoach:** Special restricted licences should be included if their details are to be included in the national register – feel strongly that if the cost of the national register is to be borne by the industry they should be spread equally amongst all operators<br>**Confederation of Passenger Transport UK:** If fees increased to pay for NR then fee should be the same irrespective of type of licence. |

| ***Q12 Do you agree that application fees for restricted PSV operator licences should be the same as for standard PSV operator licences, before changes to fund the National Register are applied?*** |
|---|
| **Yes: (8)** James Smith (Denny) Ltd; Stagecoach Group PLC; Transport Scotland; Traffic Commissioners; FirstGroup plc UK Bus; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration<br><br>**Comments:**<br>**Stagecoach:** work is the same<br>**Traffic Commissioners:** Considered that PSV fees required a modest fee increase – agreed that processing restricted licences can be as time consuming as processing standard licences – would be a disservice to public and the industry to reduce any fee income from the PSV source – restricted application fees should be increased.<br>**FirstGroup plc UK Bus:** restricted licence holders can compete with standard licence holders therefore costs should be aligned – consistent with test fees not being licence type related – no justification for differential if licence type is not the major reason for cost differences.<br>**Confederation of Passenger Transport UK:** fee should be the same as administrative work involved is the same.<br>**Institute of Transport Administration:** every operator should be on a level playing field |
| **No:(0)** |

| ***Q13 Do you think that a move to equalise standard and restricted PSV operator licence fee should be phased over 3 years?*** |
|---|
| **Yes: (4)** Stagecoach Group PLC; Transport for London; Confederation of Passenger Transport UK; Institute of Transport Administration<br><br>**Comments:**<br>**Stagecoach & Transport for London**: 3 year change easier for operators to adjust to.<br>**Confederation of Passenger Transport UK:** enable restricted licence holders to plan for harmonisation. |
| **No: (3)** James Smith (Denny) Ltd; FirstGroup plc UK Bus; Skinners of Oxted<br><br>**Comments:**<br>**FirstGroup plc UK Bus:** no strong views but consider admin cost savings may be made by single stage change. |

| ***Q14 Do you agree that VOSA should round fees up to the next highest pound?*** |
|---|
| **Yes: (6)** James Smith (Denny) Ltd; Transport Scotland; Traffic Commissioners; Skinners of Oxted; VOSA trade unions; Road Haulage Association |
| **No: (6)** Stagecoach Group PLC; FirstGroup plc UK Bus; Transport for London ; Confederation of Passenger Transport UK ; Freight Transport Association; Institute of Transport Administration<br><br>**Comments:**<br>**Stagecoach:** rounding should remain to the nearest pound.<br>**FirstGroup plc UK Bus:** prefer no rounding – can't be much harder for applicants to pay exact amount – other providers don't round – may help reduce VOSA's deficit but hardly fair on applicants.<br>**Transport for London:** rounding easier to communicate to customers but should be to the nearest pound – not convinced that current rounding policy contributed to VOSA deficit.<br>**Confederation of Passenger Transport UK:** should be rounded to nearest pound.<br>**Freight Transport Association:** contrary to normal accountancy practices – inflationary e.g. for a partial retest of a 1 axle trailer rounding alone accounts for a 4.2% increase – rejects proposal.<br>**VOSA trade unions:** will assist VOSA's financial recovery plan. |

| ***Q15 Do you support the proposed increase in charges for non-statutory services?*** |
|---|
| **Yes: (6)** Stagecoach Group PLC; Transport Scotland; Confederation of Passenger Transport UK; Skinners of Oxted; VOSA trade unions; Road Haulage Association<br><br>**Comments:**<br>**Stagecoach:** VOSA costs should be recovered<br>**Confederation of Passenger Transport UK:** cost to VOSA for providing these services should be recovered – service users should pay the correct fee.<br>**VOSA trade unions:** as long as the increase reflects cost and is not an attempt to encourage use of private sector. |
| **No: (4)** James Smith (Denny) Ltd; FirstGroup plc UK Bus ; Freight Transport Association; Institute of Transport Administration<br><br>**Comments:**<br>**FirstGroup plc UK Bus:** increase disproportionate for this valuable service, particularly with VAT impact – would support increases commensurate with other proposed increases.<br>**Freight Transport Association:** important service for which there is no private sector comparator – members do not recognise "menu" pricing in private sector because individual checks are part of wider services purchased – does not believe that there is now a competitive market but one would be created if VOSA could not cope with demand – opposes increase. |

***Q16 Are you content that operator licence fees fund both core and the consequences of non-core activities by Traffic Commissioners?***

**Yes: (13)** James Smith (Denny) Ltd; TravelWatch Northwest; Stagecoach Group PLC; Transport Scotland; Association of Road Transport Lawyers; Traffic Commissioners; Arriva plc, UK Bus; FirstGroup plc UK Bus; Confederation of Passenger Transport UK; Association of Local Bus Managers; Skinners of Oxted; Institute of Transport Administration; Chartered Institute of Logistics and Transport (UK)

**Comments:**
**TravelWatch Northwest:** particularly valued liaison with the TC and considered that the TCs interaction with the media had particular value in improving understanding of the role of TCs in bus service regulation.

**Stagecoach:** Vital that TCs meet the industry and its trade associations – which aids compliance and reduces the number of Public Enquiries. Speaking to the press can have a significant deterrent effect.

**Transport Scotland:** Consider stakeholder liaison to be one of the TC's primary duties – should not underestimate its educational and deterrence aspects – aim is to prevent undesirable behaviour from happening in the first place rather than punishing it after the fact.

**Association of Road Transport Lawyers:** urge that operator licence fees fund both core and the consequences of non-core activities – illustrative examples of the benefits of non-core activities include:

- the maintenance of the integrity of the TCs quasi-judicial role by providing a bridge between industry and enforcement authorities
- enabling TCs to keep in touch with a broader cross section of the industry and examples of best practice to avoid the risk that their views would become jaundiced if they were only exposed to operators who fall below acceptable standards
- helps to maintain and emphasise the independence of the TCs from enforcement agencies which is the cornerstone of the operator licensing system
- increases the knowledge and expertise of the Deputies who may also be needed to cover for illness of TCs.
- 

**Traffic Commissioners:** Provided several examples of the need/benefit for these activities in which the TCs are in a unique position not only to give strong messages to the transport industry about safe and legal operation of vehicles but to involve a full range of stakeholders in wider society.

**Arriva plc, UK Bus:** important that TCs views are widely known and understood and that TCs understand the needs of operators, their customers and local authorities; entirely appropriate, indeed essential, that TCs undertake stakeholder liaison, education and training events and work with the specialist media and have the opportunity to exchange views away from formal public inquiries to help them to understand what is achievable.

**FirstGroup plc UK Bus:** essential for TCs to maintain dialogue with all stakeholders to ensure their role has relevance to practical day-to-day considerations and circumstances – reducing role to judges presiding over misdemeanours would seriously reduce their effectiveness and risk them being "out of touch" with the real world – keen to see non-core roles at least maintained at their present level if not augmented – if O licence fees are the means to achieve this so be it.

**Confederation of Passenger Transport UK:** regard meetings with operators and trade associations as core activities – vital that these meetings continue to take place to enable TCs to hear industry views including those on the way VOSA operates and for industry to hear what TCs expect from compliant operators.

**Association of Local Bus Managers:** concern at any attempt by VOSA to bring about a reduction in powers and work of TCs – support and advice from TCs valuable to industry – their independence brings respect – non-core work adds value to the industry and strengthens TCs regulatory functions – industry needs TCs and VOSA to work together but function separately – considers TC support from VOSA Central Licensing not fit for purpose – dismayed that such an important fundamental principle to the organisation of the industry is challenged in a short section of a consultation document on VOSA fees – do not see how reducing TC costs saves VOSA money – supportive of TCs, their non-core activities and therefore the associated cost.

**Skinners of Oxted:** Highly value independence to TCs – non-core activities vital part of getting compliance messages across to operators – ensures operators hear TCs views rather than VOSA's take on them.

**Institute of Transport Administration:** O licence fees need to fund both – TCs need to be independent of other influences

**Chartered Institute of Logistics and Transport (UK):** limiting discretion of TCs in the activities quoted is a considerable fettering of their statutory independence – good regulation assisted cost-effectively by regulators building a climate of confidence and trust through sharing their objectives and concerns with the industry they regulate by direct contact, through the media or by other appropriate means – would expect TCs to be involved with stakeholders in determining ground rules for use of information gathered electronically by both operators and local authorities e.g. in relation to bus operators' adherence to registration conditions or allegations about driving standards - potential for lack of clarity in the regulatory process if TCs forced to concentrate on formal enforcement elements of their activities – TCs provide a vital level of protection to the travelling public – TCs accumulated knowledge is also a useful input to the development of transport policy at both local and national level that can be exploited through interaction with stakeholders – note that there has been no Impact Assessment – the costs quoted in the consultation paper are extremely small within the scale of the entire GB road freight and passenger industries.

**No: (0)**

**Related comments**

**Chris Heaps:** questioned "whether VOSA had the powers to seek to determine *"the non-core functions"* and *"core functions"* Traffic Commissioners (TCs) and therefore to seek views as to their justification and sustainability".

**Association of Road Transport Lawyers:** concerned that there was no Impact Assessment in respect of the role of the TCs.

**Association of Road Transport Lawyers:** consider that TCs subsidise VOSA because operator licence fees and penalties imposed by the Traffic Commissioner more than cover the cost of the Commissioners, their support and the operation of the operator licensing

system.
**VOSA Comment:** Penalties are paid to the exchequer and cannot be used to offset Trading Fund costs. Thus only the operator licence fees are available to the Trading Fund to cover the costs mentioned.

**Association of Road Transport Lawyers:** not for VOSA to comment on activities of TCs.

**Traffic Commissioners:** raised several issues about the relationship between VOSA and the TCs.

**Arriva plc, UK Bus:** Questioned whether this consultation was the appropriate place to seek views on these matters.

**Transport for London:** does not consider this a suitable subject for a VOSA consultation – has strong views but will respond to DfT not VOSA.

**Confederation of Passenger Transport UK:** concerned that consultation contains proposals to limit TC interaction with industry – TC views of great interest and value to members – restriction of this activity would not be welcome by bus and coach sectors.

**Freight Transport Association:** objects in the strongest possible terms to a question regarding the fundamental role of the Traffic Commissioners being included as part of this consultation.

**Road Haulage Association:** Operator licensing system and TCs work exceptionally well – GB arguably has the safest road freight industry in the world, which should not be jeopardised – VOSA acts a police and prosecutor TCs as judge and jury – sees inclusion in a VOSA consultation as totally inappropriate – core duties of TCs include both statutory and non-statutory functions – misguided to describe activities such as informal meetings with stakeholders as “non-core” – they constitute an important element of their work, fully compatible with their statutory role and broader Hampton principles of good regulation – welcomed and fully supported by the industry – understand the desire to manage expenditure but do not believe VOSA should be handling this element of the consultation – not supported by any kind of impact assessment – the Statutory Senior TC should use their powers to consult on the position of TC as regulators and facilitate debate about the ways in which the TCs fulfil their statutory and non-statutory roles; and how their work is done using Deputies and VOCA staff.

| ***Q17 Can you offer any information which we could use publicly that would help us to make the impact assessment more accurate?*** |
|---|
| **Yes: (0(** |
| **No: (7)** James Smith (Denny) Ltd; Stagecoach Group PLC; FirstGroup plc UK Bus; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration; Road Haulage Association<br><br>**Comments:**<br>**Stagecoach:** suggested that the Competition Commission may have useful data. |

| ***Q18 Can you provide any data which we could use in published documents to assess the effects of our proposals on your industry sector?*** |
|---|
| **Yes: (0)** |
| **No: (8)** James Smith (Denny) Ltd; Stagecoach Group PLC; FirstGroup plc UK Bus; Transport for London; Confederation of Passenger Transport UK; Skinners of Oxted; Institute of Transport Administration; Road Haulage Association |

## 5 Summary of other comments

| General comments |
|---|
| **Cllr Gibson (Iver, Bucks)**: Wishes TCs powers in respect of operating centres to be extended to include "cumulative effect of HGV operating centres" on "local, unclassified and residential roads".<br><br>**VOSA Comment**: Not within the scope of this consultation but views passed on to DfT officials responsible for policy in this area. |
| **Historic Commercial Vehicle Society**: No objections because proposals do not reduce freedom of use of historic commercial vehicles.<br><br>**VOSA Comment:**<br>Noted |
| **Stagecoach:** One in One Out (OIOO) should apply to European Regulation.<br><br>**VOSA Comment:** The policy on what is in and out of scope of OIOO is set by the Cabinet Reducing Regulation sub-Committee. Their current policy is that the effects of EU legislation are out of scope. |
| **Association of Road Transport Lawyers:** "deprecate the opaque suggestion that the cost of Traffic Commissioners should be seen as a possible justification for increasing non-operator licence fees as set out in this consultation"<br><br>**VOSA Comment:** No such suggestion was made. The activities which can be funded from particular fees are strictly controlled by the legislation containing the fee raising power, the Department of Transport (Fees) Order 1988, the Department for Transport (Fees) Order 2009 and Treasury policies. |
| **Freight Transport Association:**<br>Have been told that "licensing fees pay only for the TC System". VOSA Annual Report 2010/11 shows licensing fee income as £11.6M but TC and DTC costs as £1,5M – where is the difference going?<br>The FTA included a table in which they had re-presented some information from the VOSA Annual Report for 2010/11 and asked that consideration be given to presenting information in this format<br><br>**VOSA Comment:**<br>The "TC system" would, perhaps have been more clearly described as the "operator licensing system" In 2010/11 £1.4m was spent on salaries, travel and subsistence for Traffic Commissioners and their Deputies. The balance of £11.6m was for accommodation, TC support from the Offices of the Traffic Commissioners and Central Licensing Services.<br><br>VOSA will help FTA to understand the figures during routine meetings with the Association and consider whether clarity can be improved in future annual reports, within standard Treasury reporting formats. |

| |
|---|
| **British Vehicle Rental and Leasing Association:** Note comments in the National Audit Office report on VOSA's enforcement of regulations on commercial vehicles that VOSA *'could deliver significantly better value for money through refining its systems for scoring risk and its targets and deploying staff so as to make better use of its resources. There are also a number of long-standing issues such as the location of check sites which the Department, together with the Agency, must address both to improve value for money and make the Agency's work more effective.'* – question how many of these long standing issues have been addressed to ensure VOSA is reducing this deficit.<br><br>**VOSA Comment:**<br>As explained in published Annual Reports and Business Plans, VOSA is working with the industry trade associations and other agencies to develop and implement a number of joint strategic compliance aspirations to tackle the causes of non-compliance aimed at addressing this and other issues raised by the NAO. |
| **British Vehicle Rental and Leasing Association:** believe the most cost effective way for annual tests to be carried out would be independent VOSA-accredited testers<br><br>**VOSA Comment:**<br>Noted |

## 6 Respondents

| |
|---|
| James Smith (Deny) Ltd |
| Carol Gibson |
| Historic Commercial Vehicle Society |
| British Vehicle Salvage Federation |
| TravelWatch NorthWest |
| Stagecoach Group PLC |
| Chris Heaps |
| Transport Scotland |
| Association of Road Transport Lawyers |
| Traffic Commissioners |
| Arriva |
| FirstGroup plc, UK Bus Division |
| Transport for London |
| Confederation of Passenger Transport UK |
| Association of Local Bus Managers |
| Skinners of Oxted |
| Freight Transport Association |
| Institute of Transport Administration |
| VOSA Trade Union Side |
| BVRLA |
| Chartered Institute of Logistics and Transport |
| Road Haulage Association |

| | |
|---|---|
| **Title:**<br>Restructuring of fees for applications for bus and coach operator licences.<br><br>**IA No:** DfT00073<br>**Lead department or agency:**<br>Vehicle and Operator Services Agency (VOSA)<br>**Other departments or agencies:** | Impact Assessment (IA)<br>**Date:** 16/11/2011<br>**Stage:** Final<br>**Source of intervention:** Domestic<br>**Type of measure:** Secondary legislation<br>**Contact for enquiries:**<br>john.maclellan@vosa.gsi.gov.uk |

## Summary: Intervention and Options

**RPC Opinion:** AMBER

| Cost of Preferred (or more likely) Option | | | | |
|---|---|---|---|---|
| **Total Net Present Value** | **Business Net Present Value** | **Net cost to business per year** (EANCB on 2009 prices) | **In scope of One-In, One-Out?** | **Measure qualifies as** |
| £0 | £0 | £0 | No | NA |

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

Operators of buses and coaches for hire and reward are required to have operator licences as part of the regime to improve road safety and to comply with EU law. Current fees for standard and restricted bus and coach (PSV – Public Service Vehicle) operator licence applications do not reflect the costs of determining those applications. Fees for standard licence applications are higher than for restricted licences but the cost of determining the two application types is generally similar thus applicants for standard licences are subsidising the determination of restricted licences. The fees are set in legislation and paid to a Government Trading Fund, so fees can only be changed by Government action.

**What are the policy objectives and the intended effects?**

To ensure that the fees charged for standard and restricted PSV operator licence application fees relate more closely to the costs incurred in determining those applications without increasing the overall cost to businesses and the third sector. The restructure will transfer costs from applicants for standard licences to applicants for restricted licences.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

We have compared all options to the 'do nothing' case (i.e. maintaining existing differentials).

Option 1: Equalise present standard and restricted PSV operator licence application fees in 1 step in 1 year.

Option 2: Equalise present standard and restricted PSV operator licence application fees in 3 steps over 3 years.

Our preferred option is Option 1 because relating fees to costs is achieved more quickly. Applying for a licence is a one-off event in setting up a new business or for existing businesses expanding into a new area. It represents only a tiny proportion of the cost of operating the business if the application is successful. Phasing the change over 3 steps is likely to result in additional costs to make 3 changes to regulations. It also delays the benefit to new businesses seeking standard licences. Together these factors outweigh possible benefits of allowing businesses time to adjust to the new fee levels

**Will the policy be reviewed?** It will/will not be reviewed. **If applicable, set review date:** Month/Year

| | | | | | |
|---|---|---|---|---|---|
| Does implementation go beyond minimum EU requirements? | | | N/A | | |
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base. | **Micro**<br>Yes | **< 20**<br>Yes | **Small**<br>Yes | **Medium**<br>Yes | **Large**<br>Yes |
| What is the $CO_2$ equivalent change in greenhouse gas emissions? (Million tonnes $CO_2$ equivalent) | | | **Traded:**<br>N/A | **Non-traded:**<br>N/A | |

***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.***

Signed by the responsible Minister:Mike Penning ............................ Date: 07/02/2012

## Summary: Analysis & Evidence — Policy Option 1

**Description:** Equalise standard and restricted PSV operator licence application fees in 1 year.

**FULL ECONOMIC ASSESSMENT**

| Price Base Year 2010 | PV Base Year 2011 | Time Period Years 10 | Net Benefit (Present Value (PV)) (£m) | | |
|---|---|---|---|---|---|
| | | | **Low:** N/A | **High:** N/A | **Best Estimate:** 0 |

| **COSTS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Cost** (Present Value) |
|---|---|---|---|---|
| **Low** | 0 | N/A | 0.041 | **0.35** |
| **High** | 0 | | 0.044 | **0.38** |
| **Best Estimate** | 0 | | 0.043 | **0.37** |

**Description and scale of key monetised costs by 'main affected groups'**

1.) The one-off application fee for restricted licences is estimated to increase by about £47. This is a transfer from business to VOSA. The total estimated additional costs to businesses applying for restricted licences are estimated at around £21,000 per year. 2.) The one-off application fee for standard licences is estimated to decrease by about £32. This is a transfer from VOSA to business. The total cost to VOSA is estimated at around £21,000 per year.

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

There are no non-monetised costs of this proposal.

| **BENEFITS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Benefit** (Present Value) |
|---|---|---|---|---|
| **Low** | 0 | | 0.041 | **0.35** |
| **High** | 0 | | 0.044 | **0.38** |
| **Best Estimate** | 0 | | 0.043 | **0.37** |

**Description and scale of key monetised benefits by 'main affected groups'**

1.) The one-off application fees for standard licences is estimated to decrease by about £32. This is a transfer from VOSA to business. The total estimated benefits to businesses applying for standard licences are therefore estimated at around £21,000 per year. 2.) The one-off application fee for restricted licences is estimated to increase by about £47. This is a transfer from business to VOSA. The total benefit to VOSA is estimated at around £21,000 per year.

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

Applicants for standard PSV operator licences will pay a fairer share of the cost of processing their applications since the fees charged will relate to the estimated cost of providing the services.

**Key assumptions/sensitivities/risks** — **Discount rate (%)** 3.5

1.) The key assumptions throughout the appraisal period: the total number of licence applications forecast for 2011/12 will be maintained; the ratio of standard to restricted licence applications will be consistent with the licences currently in issue (59% / 41%). 2.) The estimates of the monetised costs and benefits are sensitive to the assumptions that have been made in this IA and are therefore uncertain - e.g. the equalised fee is sensitive to the assumption on the ratio of licences.

**BUSINESS ASSESSMENT (Option 1)**

| Direct impact on business (Equivalent Annual) £m: | | | In scope of OIOO? | Measure qualifies as |
|---|---|---|---|---|
| **Costs:** 0.02 | **Benefits:** 0.02 | **Net:** 0 | No | NA |

## Summary: Analysis & Evidence

Policy Option 2

**Description:** Equalise standard and restricted PSV operator licence application fees over 3 years.

**FULL ECONOMIC ASSESSMENT**

| Price Base Year 2010 | PV Base Year 2011 | Time Period Years 10 | Net Benefit (Present Value (PV)) (£m) | | |
|---|---|---|---|---|---|
| | | | **Low:** N/A | **High:** N/A | **Best Estimate:** -0.01 |

| **COSTS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Cost** (Present Value) |
|---|---|---|---|---|
| **Low** | 0 | 2 | 0.036 | **0.30** |
| **High** | 0.013 | | 0.038 | **0.32** |
| **Best Estimate** | 0.007 | | 0.037 | **0.31** |

**Description and scale of key monetised costs by 'main affected groups'**

1) Application fee for restricted licence estimated to increase in 3 steps of about £16 in 2011/12, 2013 and 2014 - cost to business estimated at around £7,000 in 2011/12, £14,000 in 2013 and £21,000 per year from 2014. 2) One-off application fee for standard licences estimated to fall in 3 steps of about £11 in each year. Cost to VOSA estimated at around £7,000 in 2011/12, £14,000 in 2013 and £21 per year from 2014. 3) Cost to VOSA of making 2 more SIs estimated as £6,500.

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

Phasing the change over 3 steps would produce a marginal cost to applicants for standard licences who would subsidise applicants for restricted licences for longer.

| **BENEFITS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Benefit** (Present Value) |
|---|---|---|---|---|
| **Low** | 0 | | 0.034 | **0.29** |
| **High** | 0 | | 0.037 | **0.31** |
| **Best Estimate** | 0 | | 0.036 | **0.30** |

**Description and scale of key monetised benefits by 'main affected groups'**

1) The application fee for standard licences is estimated to fall in 3 steps of about £11 in 2011/12, 2013 and 2014. The benefit to businesses applying for standard licences is estimated at around £7,000 in 2011/12, £14,000 in 2013 and £21,000 per year from 2014. 2.) The application fee for restricted licences is estimated to rise in 3 steps of about £16 in 2011/12, 2013 and 2014. The benefit to VOSA is estimated at around £7,000 in 2011/12, £14,000 in 2013 and £21,000 per year from 2014.

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

Applicants for standard PSV operator licences will pay a fairer share of the cost of processing their applications since the fees charged will relate to the estimated cost of providing the services. Phasing the change over 3 years would produce a marginal benefit by postponing the time when they paid the full cost of processing their applications and might enable them to plan for the change.

**Key assumptions/sensitivities/risks** — **Discount rate (%)** 3.5

1.) The key assumptions throughout the appraisal period: the total number of licence applications forecast for 2011/12 will be maintained; the ratio of standard to restricted licence applications will be consistent with the licences currently in issue (59% / 41%). 2.) The estimates of the monetised costs and benefits are sensitive to the assumptions that have been made in this IA and are therefore uncertain - e.g. the equalised fee is sensitive to the assumption on the ratio of licences.

**BUSINESS ASSESSMENT (Option 2)**

| **Direct impact on business (Equivalent Annual) £m:** | | | **In scope of OIOO?** | **Measure qualifies as** |
|---|---|---|---|---|
| **Costs: N/A** | **Benefits:** N/A | **Net:** N/A | No | NA |

# Evidence Base (for summary sheets)

## References

| No. | Legislation or publication |
|---|---|
| 1 | VOSA Annual Report 2010/11<br>http://www.dft.gov.uk/vosa/repository/Annual%20Report%20201011.pdf |
| 2 | VOSA Business Plan 2011/12<br>http://www.dft.gov.uk/vosa/repository/VOSA%202011-12%20Business%20Plan.pdf |
| 3 | Consultation document, consultation stage Impact Assessments and consultation report at:<br>http://www.dft.gov.uk/consultations/dft-2011-18/ |
| 4 | Final stage Impact Assessment on funding the national register of licensed operators of goods vehicles, buses and coaches at:<br>http://www.dft.gov.uk/publications/fee-hgv-psv-testing-licensing |
| 5 | Final stage Impact Assessment on lorry, bus and coach examination fees – location differentiation at:<br>http://www.dft.gov.uk/publications/fee-hgv-psv-testing-licensing |
| 6 | Annual Reports of the Traffic Commissioners can be found at:<br>http://www2.dft.gov.uk/pgr/roads/tpm/trafficcommissioners/annualreports/ |

# GENERAL ISSUES

## Overall context

1. The Vehicle and Operator Services Agency (VOSA) is a Government Trading Fund within the Department for Transport. Its activities include roadworthiness testing of lorries, buses and coaches; encouraging and enforcing safe and legal operation of those vehicles; specialist inspections of vehicles; managing the MOT scheme for testing cars and other light or private vehicles; and supporting the Traffic Commissioners in their statutory functions (e.g. in respect of licensing of operators of lorries, buses and coaches). Proposals for fees in 2011 form part of VOSA's wider financial management strategy which is outlined more fully in its published Business Plans and Annual Reports. VOSA's published Annual Report for 2010/11 (reference 1) shows that the trading fund carried forward a retained deficit of almost £25.5 million into 2011/12. The published Business Plan for 2011/12 (reference 2) is to generate an in-year surplus of £5 million towards clearing that deficit. VOSA plans to achieve this without any general fee increase, using part of continuing efficiency savings to absorb inflation.

# Rationale for Government Intervention

2. Operators of Public Service Vehicles (PSVs – i.e. buses and coaches) for hire and reward are generally required to hold PSV operator's licences granted by the Traffic Commissioner. Operator licensing is part of the regulatory system to ensure that operators have adequate resources and management systems to operate their vehicles safely and legally. Operator licensing is required by EU law.
3. Current fees for *standard* and *restricted* bus and coach (PSV – Public Service Vehicle) operator licence applications do not reflect the costs of determining the respective applications. Fees for *standard* licence applications are higher than for *restricted* licences. However, the cost of determining the two application types is generally similar, thus applicants for *standard* licences are currently subsidising the determination of *restricted* licence applications.
4. The cost of determining those applications is met from fees charged to applicants, which are collected by VOSA. PSV operator licences are generally in one of two categories:

- *restricted* licence holders can operate no more than 2 vehicles; there are also restrictions on the size of their vehicles; and there may also be restrictions on the nature of their business (i.e. their prime business is not transport of passengers e.g. hotels or car park operators who operate 1 or 2 courtesy buses);
- *standard* licence holders have no such restrictions but fleet sizes vary from one or two vehicles to many hundreds and may cover national or both national and international operations;
- there are also special *restricted* licences to enable operators of licensed taxis and private hire vehicles to provide local services.

5. The average number of vehicles used by the holders of PSV licences is less than 10. Given that the industry includes many large fleets, the average fleet size means that many operators with *standard* licences have fleets of similar or only slightly larger size than their counterparts eligible for *restricted* licences
6. Currently fees for "*restricted*" PSV operator licence applications are lower than for "*standard*" licences. The only significant difference in the requirements is that applicants for *restricted* PSV licences do not require a transport manager for the purpose of demonstrating professional competence. So whilst time is saved processing *"restricted"* licences by not having to check transport manager details and qualifications, additional checks have to be made to provide assurance that the applicant is not trying to bypass the 2 vehicle restriction by seeking separate licences for what is in fact the same business. Thus, VOSA experience shows that there is very little difference in typical processing times for both categories. VOSA has also found that variations in the amount of work needed to process applications has more to do with the manner in which evidence of compliance is presented than fleet size. An application for a licence to operate one or two vehicles where evidence of compliance is unclear tends to take longer to process than one to operate larger numbers of vehicles where evidence of compliance is clear.
7. Application fees for special *restricted* licences are lower still, but since these operators are already licensed by Local Authorities to operate taxis of private hire cars, the work to determine their applications is proportionate to the fees charged. They are therefore not included in the change covered by this IA.
8. The fees concerned are set in legislation and paid to a Government Trading Fund, so fees can only be changed by Government action.

## Policy objective

9. The objective of the proposed changes is to ensure that the fees charged for particular services cover the costs of those services and are proportionate to the cost of providing the class of service concerned.

## Options Considered

10. The following options have been considered:
    - Do nothing.
    - OPTION 1 – Equalise application fees for *standard* and *restricted* PSV operator licences in 1 year.
    - OPTION 2 – Equalise application fees for *standard* and *restricted* PSV operator licences staging the change over 3 years.

# Costs an benefits of each option

## Direct impact on business and One In One Out (OIOO)

11. Both options redistribute costs between businesses, but do not change the net costs to the passenger transport industry as a whole. In the case of the preferred option (Option 1), costs to applicants for restricted licences are estimated to increase by around £21,000 per year (around £47 per applicant business) and costs to applicants for standard licences are estimated to decline by around £21,000 per year (around £32 per applicant business). However, for individual businesses application for a new licence is normally a one-off cost which does not recur.
12. The change in fees does not change the level of regulation and as such it is out of scope of OIOO.

## Micro-business and start-up moratorium

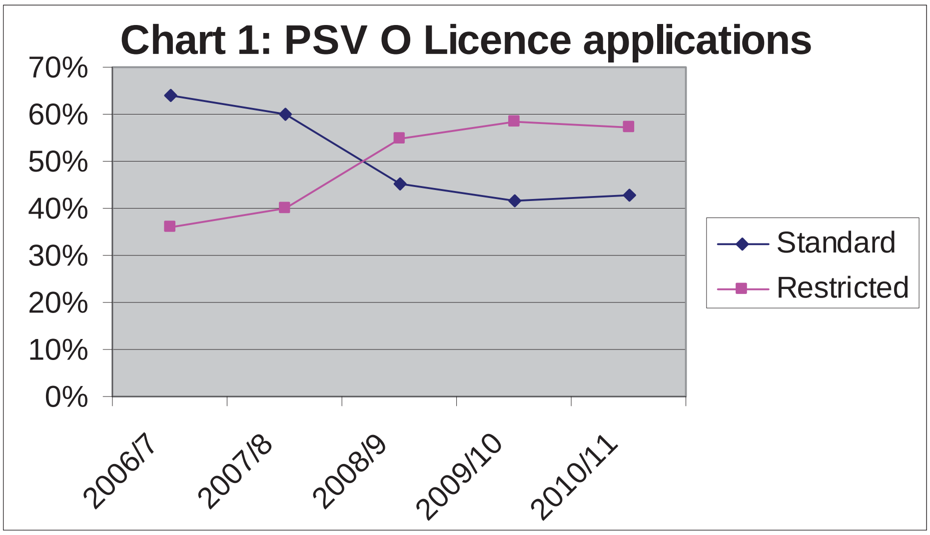
13. This measure alters the amount of fees but does not change the level of regulation and as such is out of scope of OIOO. It is therefore out of scope of the moratorium.

## Overview and calculation of equalised fee

14. Option 1 and Option 2 are estimated to deliver the same overall cost to customers and income to VOSA. Neither option affects the aim of fully recovering costs, alters the administrative burden or the cost of the resources needed to deliver the service compared to the Do Nothing option.
15. Table 1 below shows the numbers of licence applications and of licences “in issue” over the most recent 5 year period taken from the Annual Reports of the Traffic Commissioners (reference 6). Chart 1 shows graphically the proportion of applications for each licence type.

**Table 1: PSV O licence applications**

| | Applications | | | | | In issue | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Standard | | Restricted | | Total | Standard | | Restricted | |
| Year | No. | % | No. | % | | No. | % | No. | % |
| 2006/7 | 809 | 64% | 457 | 36% | 1,266 | 5,521 | 62% | 3,368 | 38% |
| 2007/8 | 791 | 60% | 527 | 40% | 1,318 | 5,479 | 60% | 3,596 | 40% |
| 2008/9 | 464 | 45% | 564 | 55% | 1,028 | 5,399 | 60% | 3,669 | 40% |
| 2009/10 | 437 | 42% | 611 | 58% | 1,048 | 5,235 | 57% | 3,897 | 43% |
| 2010/11 | 380 | 43% | 504 | 57% | 884 | 5,448 | 57% | 4,055 | 43% |
| Average | 576 | 52% | 533 | 48% | 1,109 | 5,416 | 59% | 3,717 | 41% |
| Assumed | 658 | 59% | 451 | 41% | 1,109 | | | | |




16. Within the generally downward trend in numbers of applications, there has been a marked increase in proportion of applications for restricted licences between 2006/7 and 2009/10. This is linked to a

sustained effort by VOSA over that period to bring businesses operating limousines into the operator licensing system and curb illegal unlicensed operation of such vehicles. Most such operations can be carried out under restricted licences, thus the relative increase in applications. We believe that this effect peaked in 2009/10 and that in 2011/13 and beyond the proportion of restricted licence applications will reduce. The belief that the recent trend to a higher proportion of restricted applications is a short term blip rather than a longer term shift of the market is based on observations from those processing the applications that many of the *restricted* applications during the period of rapid change were because of VOSA's effort to bring limousine operators into the licensing system. This is supported by the above graph showing that the more dramatic rate of change in ratio of application types in 2006/07 to 2008/9 reduced in 2009/10 and starts to reverse in 2010/11. To normalise this peak, we have assumed that, over the appraisal period, the ratio of standard to restricted licence applications will revert back to longer term trends indicated by the number of licences in issue in calculating the equalised fee level. Thus the assumed ratio of standard to restricted licence applications has been assumed to be the 5 year average of licences "in issue" (the term used to describe licences which are valid at any point in time). As discussed below (paragraphs 20 to 25), should this assumption prove wrong it will be corrected in future years by increasing or decreasing the equalised fee.

17. For the purposes of calculating overall costs and benefits, it is has been assumed that the predicted volume of applications would be maintained in all years in the appraisal period at the average levels over the last 5 years for which figures were available at the time of writing. An average has been used because there is limited evidence from which to forecast application volumes. This seems a reasonable assumption given that traffic forecasts from the National Transport Model (http://www.dft.gov.uk/publications/road-transport-forecast-dft-ntm-results-2009) suggest that PSV mileage will remain relatively constant over the appraisal period. It is further assumed that Option 1 and Option 2 would not have an impact on the total number of applications. However, because the adjustments needed to achieve fee equalisation are dependent on ratio of licence types rather than the total volume the effect on individual licence applicants is independent of volumes.

18. Because of the great variety of ways in which PSVs are used and the lack of public domain information on typical operating costs, it has not proved practicable to model the effect of these fee changes as a proportion of overall operating costs. But, although this change means a significant step increase in the fees for restricted licence applications, it represents only a very small proportion of the costs of owning, maintenance, fuel and drivers which successful applicants will have to bear.

19. Table 2 below shows the calculation of the estimated equalised fee.

**Table 2: Calculation of equalised fee**

| | Standard | Restricted |
|---|---|---|
| 2010/11 fee charged | £ 235.00 | £ 155.00 |
| 2010/11 fee before rounding | £ 235.20 | £ 155.40 |
| Licences in issue | 5,416 | 3,717 |
| | 59% | 41% |
| 2011/13 licence applications forecast per year (split in proportion to licences in issue) | 1,109 | |
| | 658 | 451 |
| 2011/13 income per year | £154,680 | £70,139 |
| | £224,819 | |
| 2011/13 equalised fee - before national register and rounding | £202.72 | |
| | | |
| Change from fee before rounding - 1 step (Option 1) | -£32.48 | £47.32 |
| | -13.8% | 30.5% |
| Change from fee before rounding - 3 steps (Option 2) | -£10.83 | £15.77 |
| | -4.6% | 10.2% |

**Sensitivity**

20. The major sensitivities which could affect the above calculation are a) the assumptions on the mix of licence types used to calculate the equalised fee and b) whether the altered fee structure might affect that mix.

21. Changes in total volumes compared to assumptions would lead to proportionate changes in workload and income for VOSA and have to be part of the normal management process for any demand led service. Although such changes would mean a proportionate changes in the valuation of both costs and benefits quoted in the Summary: Analysis & Evidence sheets they would not alter the Net Benefit figures quoted. Total volume changes have therefore not been treated as a significant sensitivity.

*Effect of assumptions on the mix of licences*

22. As discussed in paragraphs 16 and 17 above, we have assumed that the number of applications received and the mix of types does vary from year to year. It is extremely difficult to predict the mix in any one year. VOSA's aim is to equalise the fees by transferring cost between the two customer groups without changing its total income relative to the level it would have received had the change not taken place and the volumes remained constant. To minimise the risk associated with the variable mix of licences, this impact assessment assumes that the mix of licence types in future reflects the 5-year average mix of licences currently in force (referred to as "in issue"). Table 3 below Shows a sensitivity analysis on the effect of errors in the assumed mix of licence types.

**Table 3: Volume mix sensitivity analysis**

| | More *standard* | Assumed mix | more *restricted* |
|---|---|---|---|
| Proportion of *standard* licences | 69% | 59% | 49% |
| Predicted *standard* licence applications | 765 | 658 | 543 |
| Annual applicant cost for *standard* licence applicationss in "do nothing" case | £179,977 | £154,680 | £127,810 |
| Annual applicant cost for *standard* licence applications in option 1 case | £155,125 | £133,321 | £110,161 |
| Annual transfer from standard applicants to VOSA in option 1 case | -£24,852 | -£21,359 | -£17,649 |
| | | | |
| Proportion of *restricted* licences | 31% | 41% | 51% |
| Predicted *restricted* licence applications | 344 | 451 | 566 |
| Annual applicant cost for *restricted* licence applications in "do nothing" case | £53,425 | £70,139 | £87,893 |
| Annual applicant cost for *restricted* licence applications in option 1 case | £69,694 | £91,498 | £114,658 |
| Annual transfer from *restricted* licence appicants to *VOSA in option 1 case* | £16,269 | £21,359 | £26,765 |
| | | | |
| Total annual applicant cost in "do nothing" case | £233,402 | £224,819 | £215,703 |
| Total annual applicant cost in option 1 case | £224,819 | £224,819 | £224,819 |
| | | | |
| Net change to VOSA income from application fees comparing "do nothing" with option 1 cases | -£8,583 | £0 | £9,117 |
| | -3.7% | 0.0% | 4.2% |

23. As can be seen if the assumed proportion of standard licences were 10 percentage points higher, than assumed then, once the equalised fee was attained, VOSA's annual income from this fee would be an estimated £8,583 (3.7%) lower than in the "do nothing" case; if the proportion of standard licences were 10 percentage points lower than assumed VOSA's annual income is estimated as being £9,117 (4.2%) higher. In the case of option 2, the same end point would be reached in stages.

*Effect of fee change on mix of licences*

24. The type of licence which is appropriate is determined by the number and type of vehicles proposed to be operated and the nature of the main occupation of the applicant (see paragraph 4). At first glance it might be thought that equalisation of application fee might make some applicants consider whether to apply for a standard rather than a restricted licence. However, there are some other differences in the requirements for applying for standard and restricted licenses. Firstly, to obtain a standard licence, the applicant needs to have a professionally qualified transport manager. This requirement is waived for restricted licences. Secondly, while applicants for both types of licence are required to show that they have adequate finance available to operate their vehicles, the minimum finance necessary is lower for restricted licences. It is therefore not considered likely that application fee equalisation would have any significant effect on demand for either licence type.

25. There could also be a sensitivity in respect of timing of applications if option 2 were to be adopted. Applications for restricted licences might be brought forward (to minimise the effect of fee increases) and those for standard licences delayed (to maximise the benefit of reducing fees). Given that the maximum total change in fees is less than £50 (37 litres of diesel say 250 miles), which is a tiny proportion of even the fuel costs let alone staff costs for the businesses affected. It seems highly unlikely that this would influence the timing of applications.

## Costs and Benefits of Option 1

26. Under Option 1, the application fee for a *restricted* PSV operator licence and the application fee for a *standard* PSV operator licence would be equalised within a single year. The impact of Option 1 would be to increase the application fee for a *restricted* PSV operator licence and reduce the application fee for a *standard* PSV operator licence.

27. On the basis of the above calculations, it is estimated that the application fee for a *restricted* PSV operator licence would **rise** by around £48. The rise in this fee represents a transfer from business to VOSA. As noted above, it is assumed that there would be around 440 applications for *restricted* licence in each year of the appraisal period. The total estimated costs to businesses applying for *standard* licences and total estimated benefits to VOSA are therefore both estimated at around £21,000 per year in each year of the appraisal period. However, for individual businesses application for a new licence is normally a one-off cost which does not recur.

28. In addition, on the basis of the above calculations, it is estimated that the application fee for a *standard* PSV operator licence would **fall** by around £32. This is less than the estimated rise in the application fee for a *restricted* PSV operator licence because the income that would be generated from the rise in *restricted* licence fees has to be spread over a larger number of *standard* licence applications. The fall in this fee represents a transfer from VOSA to business. As noted above, it is assumed that there would be around 660 applications for *standard* licences in each year of the appraisal period. The total estimated benefits to businesses applying for *standard* licences and total estimated costs to VOSA are therefore both estimated at around £21,000 per year in each year of the appraisal period. Again, for individual businesses application for a new licence is normally a one-off cost which does not recur.

29. However, it should be noted that the above estimates are uncertain. Firstly, it should be noted that both the estimated increase in the application fee for a *restricted* PSV operator licence and the estimated decrease in the application fee for a *standard* PSV operator licence are sensitive to the assumptions made when estimating the equalised fee, particularly the assumption regarding the ratio of *standard* to *restricted* licences under the Do Nothing scenario. Secondly, it should be noted that the estimates of the benefits and costs are also sensitive to a) the assumptions made when estimating the equalised fee; and b) the assumptions about the number of applications in the Do Nothing scenario and Option 1.

30. For the purposes of this impact assessment, the above estimates assume that this change had been introduced at the start of the 2011/12 financial year. At the time of updating this IA the introduction date remained unclear. The effect of slippage of introduction date alters the time at which the impact is realised but does not alter the cash amounts involved. It has been assumed that in the case of option 2 that the 2$^{nd}$ and final steps will not take place till the beginning of 2012/13 and 20113/14 respectively.

31. The above change is the effect of fee restructuring alone. The PSV operator licence application fees may also be affected by proposed changes to fund a National Register (NR) of operators and their

transport managers which is being introduced to meet EU regulations. Those changes are explained in a separate IA "*Funding National Register of licensed operators of goods vehicles, buses and coaches*" (reference 4). Assuming that the preferred option to fund the NR is adopted, VOSA's estimates are that the application fees above could further increase by 1.6%. Once all changes are made, fees are then rounded to whole pounds; however, the unrounded fee provides the base for calculating fees for the following year. Thus, if Option 1 of this IA were adopted the rounded overall fee charged for a *standard* or *restricted* licence application would be £207.

### Costs and Benefits of Option 2

32. The impact of Option 2 would be to increase the application fee for a *restricted* PSV operator licence and reduce the application fee for a *standard* PSV operator licence at each fee review for 3 reviews. As noted in paragraph 30, the implementation date of this review remains unclear. To enable the effects of the stepped approach to be modelled, it has been assumed that steps 2 and 3 will take place in financial years 2013/14 and 2014/15 respectively.

33. Option 2 would reduce the impact on individual applicants within the first 3 reviews after change by staging the restructure over 3 reviews. However, it does mean that costs to applicants for *standard* licences and *restricted* licences would take longer to reach their correct level than would be the case with Option 1. In considering this option, it must be remembered that the application fee is a one-off payment to apply for a new licence. That licence continues for an indefinite period unless it is surrendered by the licensee or revoked be the Traffic Commissioner because of unacceptable performance.

34. On the basis of the above calculations, it is estimated that the application fee for a *restricted* licence would **rise** in 3 steps of around £16; giving increases from the 2010/11 level of around £16, £32 and £48 in 2011/13; 2013/14 and 2014/15 and each subsequent year of the appraisal period respectively. The rise in this fee represents a transfer from business to VOSA. As noted above, it is assumed that there would be around 440 applications for *restricted* licence in each year of the appraisal period. The total estimated costs to businesses applying for *standard* licences and total estimated benefits to VOSA are therefore both estimated at around £7,000 in 2011/13, around £14,000 in 2013/14 and around £21,000 per year from 2014/15.

35. In addition, on the basis of the above calculations, it is estimated that the application fee for a *standard* licence would **fall** in 3 steps of around £11; giving decreases from the 2010/11 level of around £11, £21 and £32 in 2011/13; 2013/14 and 2014/15 and each subsequent year of the appraisal period respectively. The fall in this fee represents a transfer from VOSA to business. As noted above, it is assumed that there would be around 660 applications for *standard* licences in each year of the appraisal period. The total estimated benefits to businesses applying for *standard* licences and total estimated costs to VOSA are therefore both estimated at around £7,000 in 2011/13, around £14,000 in 2013/14 and around £21,000 per year from 2014/15.

36. However, it should be noted that the above estimates are uncertain for the reasons discussed in paragraph 29 of this impact assessment.

37. Introducing the change in 3 steps may also mean that VOSA would incur additional costs to change the legislation in which the fees are set. VOSA normally reviews its fee levels annually. The estimated size of each step quoted in paragraph 34 and 35 is at 2011 prices. There is no certainty yet whether fees will need to change in the 2 succeeding steps because of changes to VOSA's costs or whether these or other fees within the same Statutory Instrument (SI) will be subject to further restructuring. It is therefore not sensible to include steps 2 and 3 in the same SI. If any other fees in the same SIs need to be amended at the same time as steps 2 and 3, the additional cost of the "equalisation" adjustment would be negligible. However, if no such changes were being made and SI(S) had to be made to implement steps 2 and/or 3, VOSA will incur additional costs to draft, clear, print and lay the additional SI(s) in Parliament. The cost of preparing each SI is estimated at £7,000.

38. For the purposes of this impact assessment, the above estimates assume that this change had been introduced at the start of the 2011/12 financial year. At the time of updating this IA the introduction date remained unclear. The effect of slippage of introduction date alters the time at which the impact is realised but does not alter the cash amounts involved.

39. As with Option 1, the above change is the effect of fee restructuring alone. The PSV operator licence application fees may also be affected by proposed changes to fund a National Register (NR) of operators and their transport managers which is being introduced to meet EU regulations. Those changes are explained in a separate IA "*Funding National Register of licensed operators of goods vehicles, buses and coaches*" (Reference 4). Assuming that the preferred option to fund the NR is adopted, VOSA's estimates are that the application fees above could further increase by 1.6%. Once all changes are made, fees are then rounded to whole pounds; however, the unrounded fee provides the base for calculating fees for the following year. Thus, if Option 2 of this IA were adopted the rounded overall fee in 2011/13 would be £229 for *standard* applications and £175 for *restricted* applications depending on which option is adopted to fund the NR. Fees in 2013/14 and 2014/15 may also be affected by other changes yet to be quantified.

### Consultation results, preferred option and implementation

40. VOSA conducted a public written consultation on this and other proposed changes to the fees it charges. Details of how the overall fee package interacts with these proposals are given under the heading "other proposed changes in fees not included in this IA".

41. All eight respondents to the public consultation on the fee proposals who expressed a view on PSV operator licence fee equalisation supported the proposed equalisation. Half supported the Option 2 staged approach –explanatory comments were about allowing applicants to plan for the change. One of those who did not support Option 2 mentioned that the staged approach might incur additional administrative costs.

42. In considering which option to adopt, VOSA took account of the following main factors:

- The fees being equalised are a one-off cost when applying for a new operator licence. Once granted, a licence last for an indefinite period until either it is voluntarily surrendered by the operator of it is removed by the Traffic Commissioner as a result of breaches to the conditions of the licence.
- Although not subject to research, we do not believe that applicants consider the level of fees a factor in their decision whether to apply for a licence or in the timing of that application.
- The cost of a licence application represents only a tiny proportion of the cost of operating even one PSV if the application is successful – less than the cost of one or two tanks of diesel. The increase for applicants for restricted licences is about the retail cost in August 2011of 35 litres of diesel.
- Because VOSA normally reviews its fees on an annual cycle, it is as yet unclear what other factors might affect operator licence fees in steps 2 and 3 of the transition. Each stage would therefore require separate amendment regulations to implement. If it turned out that PSV operator licence fee changes were necessary for other reasons in steps 2 and 3 of the transition, then including the effect of steps 2 and 3 of this change would add little to the cost of obtaining the amendment regulations. However, if no other changes were being made, the cost of producing and implementing the necessary amendment regulations is estimated as being in the order of £14,000.
- On balance and in view of the low additional cost to those paying more, the savings to those paying less and the one-off nature of the fee for each applicant, OPTION 1 remains our preferred option.

### Other proposed changes in fees not included in this IA

43. VOSA is also proposing two other changes to some fees which affect the cost of bus and coach operation. These other proposals are explained in separate IAs (references 4 and 5). Together with the proposal in this IA, they make up the proposed changes from VOSA's review of fees for 2011/13. Table 4 below indicates which changes affect which fees.

**Table 4: Fee to IA relationships**

| | VOSA / non-VOSA differentials (IA reference 5) | National Register funding (IA reference 4) | PSV O licence application equalisation (this IA) |
|---|---|---|---|
| PSV O Licence | | ☑ | ☑ |
| PSV Test | ☑ | ☑ | |
| RPC (reduced pollution certificate) | ☑ | | |
| Low Emission Certificate | ☑ | | |
| Voluntary checks | ☑ | | |
| HGV O Licence | | ☑ | |
| HGV Test (including notifiable alterations) | ☑ | | |

44. The following changes also affect the total fee bill for PSV operators:

- VOSA / non-VOSA differentials: it is proposed to reduce the fees for annual tests conducted at non-VOSA test facilities and increase fees for tests at VOSA facilities. These changes, which would affect only the testing element of the test fee, would have no direct impact on the operator licence fees, but would affect testing costs for most operators either directly or indirectly by reducing costs for tests carried out at non-VOSA test facilities and increasing costs at VOSA facilities. This is explained in the IA at reference 5.
- PSV test fees: a small element of the PSV test fee (£3.20) contributes to funding PSV operator licensing. Thus, the increase in fees to fund the National Register of licensed operators of goods vehicles, buses and coaches covered in the IA at reference 4 would affect the calculation of fees for full PSV tests, although for most fees the effect on the fees actually charged would be lost because the fees charged are rounded to whole pounds.
- Effect of National Register (NR) funding on PSV operator licence fees: the funding of the National Register would also affect fees paid for applications for PSV operator licences and, depending on which sub-option in the IA at reference 4 is adopted, may also affect fees for applications to vary such licences. Paragraphs 31 and 39 above indicate the estimated effect on application fees of operator licences if the preferred options were adopted in both cases. It should also be noted that, even after "equalisation" under the proposal in this IA, a small differential between standard and restricted licence applications may remain as a result of NR funding if the preferred sub-option in the NR IA is not adopted.
- Because of this complexity and the lack of data on the mix of vehicles within fleets, it is difficult to produce a meaningful estimate of the effect on individual operators. Indicative estimates of the combined effects of all three changes are that the average annual fee bill for the operator of a small PSV on a restricted licence would increase by between £4 (if tested at a non-VOSA test facility) and £10 (if tested at a VOSA test facility), and that the average annual fee bill for the operator of a large PSV on a standard licence would either decrease by £6 (if tested at a non-VOSA test facility) or increase by £1 (if tested at a VOSA test facility).
- The lack of public domain data on operating costs means that it is not possible to estimate the impact on their overall operating costs, but to put these changes into perspective, even the largest estimated increase is the equivalent of less than 8 litres of Diesel at August 2011 forecourt prices.

## Specific Impact Tests

### Equality assessment

45. The proposed policy is a change to fee levels. It would not change who has access to services, how they access those services or how they communicate with the Agency. Thus the changes would have no effect on statutory equality duties.

### Competition assessment

46. The proposed changes would not directly or indirectly limit the number or range of suppliers, limit the ability of suppliers to compete or reduce suppliers' incentives to compete vigorously. Therefore, a full competition assessment has not been carried out.

### Small firms impact test

47. The changes covered by this Impact Assessment are related to the use made of the services provided and do not change the extent to which businesses are required to use the services. The fees are charged on a per licence application and reflect the cost of providing the service. It must be remembered that the application fee is a one-off payment to apply for a new licence. If granted, that licence continues for an indefinite period unless it is surrendered by the licensee or revoked be the Traffic Commissioner because of unacceptable performance. Small businesses and their representative bodies were specifically informed of the consultation on the proposed changes, though no small businesses or organisations representing small businesses exclusively responded.
48. Because the measure is out of scope of OIOO, micro business exemption does not apply.

### Greenhouse gas impact assessment

49. The proposals in this IA would have no effect on greenhouse gases.

### Wider environmental impact assessment

50. The fee changes proposed would have no effect on wider environmental issues.

### Health and wellbeing impact assessment

51. The fee changes proposed would have no effect on health or wellbeing.

### Human rights

52. The proposals would have no human rights impact.

### Justice impact test

53. The proposals would have no impact on the justice system.

### Rural proofing

54. The proposals would have no impact on rural areas.

### Sustainable development

55. The proposals would have no significant effect on sustainable development.

| **Title:** Lorry, bus and coach examination fees - location differentiation<br>**IA No:** DfT00074<br>**Lead department or agency:**<br>Vehicle and Operator Services Agency - VOSA<br>**Other departments or agencies:**<br>Driver and Vehicle Agency of the Northern Ireland DoE - DVA | Impact Assessment (IA)<br>**Date:** 16/11/2011<br>**Stage:** Final<br>**Source of intervention:** Domestic<br>**Type of measure:** Secondary legislation<br>**Contact for enquiries**:<br>john.maclellan@vosa.gsi.gov.uk |
|---|---|

## Summary: Intervention and Options

**RPC Opinion:** AMBER

| Cost of Preferred (or more likely) Option | | | | |
|---|---|---|---|---|
| **Total Net Present Value** | **Business Net Present Value** | **Net cost to business per year** (EANCB on 2009 prices) | **In scope of One-In, One-Out?** | **Measure qualifies as** |
| £0m | £0m | £0m | No | NA |

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

Statutory testing of lorries (HGVs) and buses and coaches (PSVs) is required by EU law to improve road safety. Tests are conducted by VOSA staff either in facilities provided by VOSA; or in facilities provided by other providers. In the past, VOSA charged more to test at non-VOSA facilities. Currently the fees charged by VOSA are the same regardless of location type. Presenters who choose to use non-VOSA test facilities still contribute to the cost of VOSA facilities whilst also meeting the costs of the facilities they use. This may also discourage some from considering using non-VOSA test facilities which are, in other ways, to their benefit.

**What are the policy objectives and the intended effects?**

The fee changes in this IA are 1 step in a series of changes to:

- ensure that VOSA costs are fully recovered; and
- apply costs more fairly for different service delivery methods.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

We have compared all options to the “do nothing” option (i.e. continue to charge the same fees regardless of test location). Option 1: partial location cost differentiation in 2011/12 – i.e. limit increases to a level which, if repeated in the succeeding years would deliver full cost recovery over 3 years if all other factors were to remain unchanged. Option 2: full location cost differentiation in 2011/12 – i.e. charge the full cost of providing VOSA test facilities only to customers that opt to use those facilities and to charge additional costs of servicing non-VOSA test facilities only to those that opt to use those facilities.

Option 1 is the preferred option because it limits the immediate impact on customers using VOSA test facilities, giving them time to adjust; and means that fees in future years will be more stable to reflect changes to VOSA costs as the market for test facility provision develops.

**Will the policy be reviewed?** It will not be reviewed. **If applicable, set review date:** Month/Year

| Does implementation go beyond minimum EU requirements? | | | N/A | | |
|---|---|---|---|---|---|
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base. | **Micro** Yes | **< 20** Yes | **Small** Yes | **Medium** Yes | **Large** Yes |
| What is the $CO_2$ equivalent change in greenhouse gas emissions? (Million tonnes $CO_2$ equivalent) | | | **Traded:** N/A | **Non-traded:** N/A | |

***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.***

Signed by the responsible Minister: Mike Penning Date: 07/02/2012

## Summary: Analysis & Evidence

Policy Option 1

**Description:** Partial location cost differentiation in 2011/12

**FULL ECONOMIC ASSESSMENT**

| Price Base Year 2010 | PV Base Year 2011 | Time Period Years 10 | Net Benefit (Present Value (PV)) (£m) | | |
|---|---|---|---|---|---|
| | | | **Low:** N/A | **High:** N/A | **Best Estimate:** 0 |

| COSTS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---|---|---|---|---|
| Low | N/A | | N/A | **N/A** |
| High | N/A | | N/A | **N/A** |
| Best Estimate | 0 | | 2.2 | **19** |

**Description and scale of key monetised costs by 'main affected groups'**

1) Annual HGV & PSV test fees for customers who choose to use VOSA test faciities are estimated to increase by 4%. This is a transfer from business to VOSA. Total estimated cost to businesses using VOSA test facilities is £1.1m per year. 2) Annual HGV & PSV test fees for those who choose to use non-VOSA test facilities are estimated to decrease by 4%. This is a transfer from VOSA to business. The total cost to VOSA is estimated at around £1.1m per year.

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

Changes to fees for Reduced Pollution Certificates; Low Emission Certificates; notifiable alteration examinations; and voluntary checks have not been monetised. These are optional services and are only used if customers believe that they benefit from the service.

Impact on bus/coach (PSV) operators is likely to be of similar order to that on HGV operators.

Users of VOSA test facilities will pay a higher proportion of the cost of those facilities.

| BENEFITS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---|---|---|---|---|
| Low | N/A | | N/A | **N/A** |
| High | N/A | | N/A | **N/A** |
| Best Estimate | 0 | | 2.2 | **19** |

**Description and scale of key monetised benefits by 'main affected groups'**

1) Annual HGV and PSV test fees for customers using non-VOSA test faciities are estimated to decrease by 4%.This is a transfer from VOSA to business. The total estimated benefit to business using non-VOSA test facilities is £1.1m per year. 2.) Annual HGV and PSV test fees for those who choose to use VOSA test facilities are estimated to increase by 4%. This is a transfer from business to VOSA. The total benefit VOSA is estimated at around £1.1m per year.

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

The fee changes in this IA are a further step in a progression towards setting fees to charge the cost of VOSA provided test facilities to those using those facilities. Option 1 continues the progression whilst limiting the cost increase to those continuing to use VOSA facilities giving them, and the market, time to adjust and limits the risk of fee instability because of unpredicted market changes.

**Key assumptions/sensitivities/risks** **Discount rate (%)** 3.5

1) mix of test locations averages 50/50 for the estimated 850,000 tests per year - risk: this assumption will prove unreliable since the rate of change is affected by unpredictable market forces; 2) increased cost to VOSA of servicing non-VOSA sites assumed in the business case will not materialise in 2011/12 – risk that the assumption is incorrect; 3) no reduction in VOSA estate costs in 2011/12 because disposal lag closures; 4) impact on PSV industry not significantly different to HGV.

**BUSINESS ASSESSMENT (Option 1)**

| Direct impact on business (Equivalent Annual) £m: | | | In scope of OIOO? | Measure qualifies as |
|---|---|---|---|---|
| **Costs:** N/A | **Benefits:** N/A | **Net:** N/A | No | NA |

## Summary: Analysis & Evidence

Policy Option 2

**Description:** Full location cost differentiation in 2011/12

**FULL ECONOMIC ASSESSMENT**

| Price Base Year 2010 | PV Base Year 2011 | Time Period Years 10 | Net Benefit (Present Value (PV)) (£m) | | |
|---|---|---|---|---|---|
| | | | **Low:** N/A | **High:** N/A | **Best Estimate:** -15.5 |

| COSTS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---|---|---|---|---|
| Low | N/A | | N/A | **N/A** |
| High | N/A | | N/A | **N/A** |
| Best Estimate | 0 | | 6.3 | **54.2** |

**Description and scale of key monetised costs by 'main affected groups'**

1.) Annual HGV & PSV test fees for customers who choose to use VOSA test facilities are estimated to increase by 11.6%. This is a transfer from business to VOSA. Total estimated cost to businesses using VOSA test facilities is £3.2m per year. 2.) Annual HGV & PSV test fees for those who choose to use non-VOSA test facilities are estimated to decrease by 4.8%. This is a transfer from VOSA to estimated at £1.3m per year. 3.) VOSA costs to service additional non-VOSA sites are estimated at £1.8m.

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

Changes to fees for Reduced Pollution Certificates; Low Emission Certificates; notifiable alteration examinations; and voluntary checks have not been monetised. These are optional services and are only used if customers believe that they benefit from the service.

Users of VOSA test facilities will pay the full cost of providing those facilities.

| BENEFITS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---|---|---|---|---|
| Low | N/A | | N/A | **N/A** |
| High | N/A | | N/A | **N/A** |
| Best Estimate | 0 | | 4.5 | **38.7** |

**Description and scale of key monetised benefits by 'main affected groups'**

1.) Annual HGV & PSV test fees for customers using non-VOSA test facilities are estimated to decrease by 4.8%. This is a transfer from VOSA to business. The total estimated benefit to businesses using non-VOSA test facilities is £1.3m per year. 2.) Annual HGV and PSV test fees for those who choose to use VOSA test facilities are estimated to increase by 11.6%. This is a transfer from business to VOSA. The total benefit to VOSA is estimated at around £3.2m per year.

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

The fee changes in this IA are a further step in a progression towards setting fees to charge the cost of VOSA provided test facilities to those using those facilities. Option 2 accelerates the progression but means greater cost increases to those continuing to use VOSA facilities.

**Key assumptions/sensitivities/risks** — **Discount rate (%)** 3.5

1) mix of test locations averages 50/50 for the estimated 850,000 tests per year - risk: this assumption will prove unreliable since the rate of change is affected by unpredictable market forces; 2) increased cost to VOSA of servicing non-VOSA sites assumed in the business case will not materialise in 2011/12 – risk that the assumption is incorrect; 3) no reduction in VOSA estate costs in 2011/12 because disposal lag closures; 4) impact on PSV industry not significantly different to HGV; 5

**BUSINESS ASSESSMENT (Option 2)**

| Direct impact on business (Equivalent Annual) £m: | | | In scope of OIOO? | Measure qualifies as |
|---|---|---|---|---|
| **Costs: N/A** | **Benefits:** N/A | **Net:** N/A | No | NA |

## Evidence Base (for summary sheets)

### References

| No. | Legislation or publication |
|---|---|
| 1 | VOSA Annual Report 2009/10<br>http://www.dft.gov.uk/vosa/repository/2009%20-%202010%20VOSA%20Annual%20Report%20and%20Accounts.pdf |
| 2 | VOSA Business Plan 2010/11<br>http://www.dft.gov.uk/vosa/repository/2010-2011%20VOSA%20Business%20Plan.pdf |
| 3 | Ministerial statement to Parliament about the future of testing services provided by the Vehicle and Operator Services Agency – J Fitzpatrick, 3 July 2008<br>http://www.dft.gov.uk/consultations/dft-2011-18 |
| 4 | Consultation document, consultation stage Impact Assessments (and consultation report when published) |
| 5 | Final stage Impact Assessment on funding of the national register of licensed operators of goods vehicles, buses and coaches (when published) |
| 6 | Final stage Impact Assessment on restructuring fees for applications for bus and coach operator licences (when published) |

# General issues

### The purpose of this IA

1. This IA considers the impact of changes in fees for some activities carried out by primarily by the Vehicle and Operator Services Agency (VOSA). The changes considered are to apply a differential in the fees charged by VOSA for testing at premises which it provides and the fees it charges for carrying out the same tests at premises provided by others.

### Fees covered by this Impact Assessment

2. This Impact Assessment (IA) covers fees for the following services:
   - For lorries (including their trailers) (Heavy Goods Vehicles – HGVs):
     - annual testing
     - approval of “notifiable” alterations
     - applications for Reduced Pollution Certificates (RPCs) – to enable lower rates of vehicle taxation
     - applications for Low Emission Certificates (LECs) – to enable free entry to the London Low Emission Zone
     - voluntary checks.
   - for buses and coaches (Public Service Vehicles – PSVs)
     - annual testing – note that the fees for PSV annual tests may also be affected by small increases to contribute to the funding of the National Register of operators and their

transport managers needed to meet EU Regulations which are dealt with in a separate IA (reference 5)

- applications for Reduced Pollution Certificates (RPCs) – to enable lower rates of vehicle taxation
- applications for Low Emission Certificates (LECs) – to enable free entry to the London Low Emission Zone
- voluntary checks.

### Geographic Coverage

3. Fees for RPCs apply throughout the UK and are charged by VOSA in GB and the Driver & Vehicle Agency (DVA) in Northern Ireland. All other fees covered by this IA apply only in GB (i.e. England, Scotland and Wales) and are charged by VOSA.

## Overview

### The customers

4. Customers for testing services can be separated into two classes on the basis of service delivery method (i.e. where the test is carried out). The two classes are:
   - those who have their tests carried out at test facilities provided (i.e. paid for) by VOSA ( referred to as **VOSA**); and
   - those who have their tests carried out at test facilities which are not provided (i.e. funded) by VOSA (referred to as **non-VOSA**).

### Analysis of costs

5. The total annual cost of providing testing services in 2011/12 and 2012/13 are estimated at £54.6 million. This is shown in row A of table 2 (paragraph 64) and the final row of table 1 (paragraph 58).

6. This figure is taken from forecasts prepared by VOSA's Finance Directorate using a combination of historic costs, planned cost changes, assumptions on overall demand volume changes and assumptions on the split of test demand between VOSA and non-VOSA facilities. The demand assumptions are produced in conjunction with the Corporate Planning and Scheme Management teams and use a combination of historic data and market intelligence (largely soft intelligence) to project future demand. The assumptions on split of tests between VOSA and non-VOSA are made in conjunction with the Testing Transformation team based on historic data and market validation work carried out to determine the potential growth in availability of non-VOSA testing facilities and for closure of VOSA facilities.

7. From the scheme accounts, we have identified that the cost of the VOSA estate used to provide testing facilities is £8.5m per year. The longer term plan is to reduce that estate costs. The majority of that will come from disposal of VOSA facilities once they have been closed. There is, however, a significant lag before this benefit can be realised: firstly because VOSA facilities are not closed until there is a reasonable expectation that sufficient non-VOSA capacity will be available in the catchment area and secondly because of the time taken post-closure to relocate other services, market the site and complete the sale for owned sites or to terminate the lease of leased sites. Costs associated with relocation of services on sites to be vacated are also a relevant factor. Because of the level of uncertainty of both the timing and actual costs shed with any particular site, we have assumed that there will be no significant reduction in testing estate costs before the end of 2012/13. We have therefore treated the estate cost as a fixed cost during the period being considered.

8. A second cost element which we have tried to identify arises because sending testing staff out to non-VOSA sites is less efficient for VOSA than having vehicles brought to VOSA sites at which staff are based. This is because of travelling time and cost; and in some cases, because of less efficiently

laid out premises or fewer vehicles being available to test than would be expected at a VOSA site. The assumptions used for this are taken from the Testing Transformation Business Case (TTBC) which estimated that the combined effect of extra testing staff needed and travel costs approximated to £81k for every 1% of tests at non-VOSA. The average proportion of tests at non-VOSA in 2010/11 was 27% therefore the cost attributes to support non-VOSA sites were estimated at £2.2m.

9. One of the basic differences between Options 1 and 2 is on assumptions made about the validity of the TTBC assumptions of the costs of supporting non-VOSA. To date, VOSA's testing staff costs have not increased in line with expectation. As explained in the IA (paragraph 55 – 2nd bullet point and paragraph 65) it is not yet clear whether this assumption is overly cautious; is a short term phenomenon because the "early adopters" of the new ATF contractual arrangement are more efficient and enthusiastic than those who will become ATFs in the longer term; or is being masked by more general aspects of VOSA's efficiency improvements which have been particularly significant over the last couple of years. Option 1 therefore assumed (4th from last row of table 1 paragraph 58) that this cost too would remain constant until the end of 2012/13, whereas option 2 assumed (row B of table 2 paragraph 64) that this cost would grow as per TTBC assumption.

### Full cost recovery

10. Table 1 (paragraph 58) that under Do Nothing (column 1) those using non-VOSA test facilities would be contributing £3.1m towards the cost of providing VOSA facilities which they do not use – i.e. we would be over recovering the costs of servicing this customer group by £3.1m. Those using VOSA test facilities would only be contributing £5.4m towards the £8.5m cost of providing the VOSA test facilities the balance being subsidised by those using non-VOSA facilities – i.e. we would be under recovering from this group by £3.1m.

11. Option 1 reduces this cross-subsidy by transferring £1m from the fees paid by those using non-VOSA facilities to those using VOSA facilities. The size of the transfer has been limited in light of concerns expressed by respondents to the consultation exercise to achieve a 4% increase in fees for customers using VOSA test facilities to limit the effect on businesses who do not yet have non-VOSA facilities available to them.

12. Option 2 removes this cross-subsidy in a single step. This would mean that the VOSA fees would have to rise by 11.6%. Option 2 also assumes that the additional costs of supporting non-VOSA facilities materialises at the rate assumed by the TTBC – so limiting the reduction in non-VOSA fees to 4.8%.

13. The rate if increase in VOSA fees necessary to move to full cost recovery in a single step is considered too much of a disruption and shock to businesses struggling to cope with other cost pressures at this time and to allow them time to prepare for further changes. Option 1 is therefore being recommended as a further substantial step in the direction full cost recovery from each of the customer groups whilst maintaining the overall full cost recovery of the HGV and PSV annual test schemes assuming that the additional costs of supporting testing at non-VOSA facilities continues not to materialise to any substantial degree by the end of 2012/13. Further moves in that direction are being planned for 2013/14 and beyond.

## Background

14. The Vehicle and Operator Services Agency, (VOSA) is a Government Trading Fund within the Department for Transport. Its activities include roadworthiness testing of lorries, buses and coaches; encouraging and enforcing safe and legal operation of those vehicles; specialist inspections of vehicles; managing the MOT scheme for testing cars and other light or private vehicles; and supporting the Traffic Commissioners in their statutory functions (e.g. in respect of licensing of operators of lorries, buses and coaches).

### History

15. Statutory annual testing of HGVs was introduced in Great Britain in the late 1960s. All tests were carried out by employees of predecessors to VOSA at Government provided test stations, since, at

that time, the sort of facilities needed to test vehicles were virtually nonexistent. By April 2012, VOSA will provide some 78 such stations stretching from Lerwick in Shetland to Redruth in Cornwall.

16. Statutory annual testing of PSVs, which had been subject to a less formal regime since the 1930s, started in the early 1980s. PSVs were also tested by VOSA staff but tests were carried out at a mix of Government HGV test stations and test facilities provided by 3rd parties – largely PSV operators, which VOSA accepted as being suitable (i.e. non-VOSA test facilities referred to as Designated Premises or DPs).

17. From the early 1990s, VOSA started offering HGVs the option of tests at suitable non-VOSA test facilities, some of which were repairers rather than operators of vehicles. Also from that time, VOSA started making an additional charge for testing at non-VOSA facilities. The additional charge was to cover the cost of travel and lost time from sending staff out to these non-VOSA facilities.

18. Those providing non-VOSA test facilities were free to present only their own vehicles for test, or to allow others to present vehicles at their facilities. The relationship between the facility provider and VOSA was informal in that VOSA gave no guarantees about service provision but had no guarantees that their staff would be fully utilised. The organisation owning the premises could charge other presenters for the use of the test facility in addition to the statutory test fee payable to VOSA. This charge could be in the form of a fee for the use of the facilities (referred to as a “pit fee”) or could be included as an overhead in charges for other service which the facility provider was supplying to their customers.

19. In 1996 an EC Directive brought in EU wide requirements for the scope of periodic technical inspections of HGVs and PSVs, which were largely in line with the standards already in place in GB. Since then the GB and EU standards have further converged and it is anticipated that the standards will have fully converged early in 2012. The EU requirements leave detailed arrangements for organisation of testing and charging levels to individual Member States – thus, in respect of fee levels, there are no EU requirements.

## Other elements in fees charged by VOSA for HGV and PSV tests

20. Test fee income is not used solely to cover the cost of testing. Part of fee for full annual HGV and PSV tests, but not partial retests, is used to cover the costs of encouraging and enforcing compliance. This is referred to as the “enforcement” element of the fee. In the case of PSVs, an additional small element (the “O licence” element) of the fee for full annual tests covers the ongoing costs of maintaining operator’s licences. Fees for HGV notifiable alterations, Reduced Pollution Certificates and Low Emission Certificates have neither enforcement nor O licence elements.

21. The changes covered by this Impact Assessment affect only the “testing” element of the fees concerned and figures quoted cover both HGVs and PSVs – the enforcement and O licence elements of test fees are not being changed. Thus, a 4% increase in the testing element of the annual test of a 2 axle HGV means that the fee charged for the test, including the enforcement element only increases by 3.2% under option 1. The fee tables at Annex A show all elements of each fee as well as the overall fee to be charged.

## Other fees and charges affected by changes in this IA

22. Fees for appeals against refusal to issue an HGV or PSV test certificate have been treated in the same way as tests at VOSA since most of the small number of appeal tests are carried out at VOSA facilities and the fee is refunded if there were reasonable grounds for the appeal.

23. Fees for HGV notifiable alterations will be treated in the same way as fees at VOSA. This is because the fees are paid at the time of application and no decision has been taken at that time as to whether a physical inspection will be necessary. Where physical inspection is needed, most are carried out at VOSA facilities.

24. Applications for Reduced Pollution Certificates (RPC) and Low Emission Certificates (LEC) may, depending on circumstances, be determined on the basis on evidence supplied or may require a physical inspection of the vehicle. Where needed, physical inspections are carried out in GB at both VOSA and non-VOSA sites. Physical inspections often at carried out at the same time as annual tests and will therefore be subject to the same differentiation as annual tests (i.e. -4% or +4%

depending on location of the examination). Fees for RPCs and LECs which do not require a physical examination will remain unchanged.

25. VOSA carries out some marginal activities to enable vehicle operators who may not have access to specialist equipment (roller brake testers, diesel smoke meters and headlamp beam setters) to bring their vehicles to a VOSA test station for checks using that equipment. VOSA also carries out voluntary "tests" to annual test standards for some customers whose vehicles do not come within scope of statutory annual testing or who wish to monitor their vehicle condition more frequently. These services are normally provided at VOSA facilities so will also be subject to the same increase as tests at VOSA facilities. In addition, VOSA does not intend to absorb inflation for these services so proposes to increase these charges in line with the RPI for November 2010 of 4.7%[1] (which is the most recently published data at the time that the consultation is being prepared). This sort of check is also available from commercial suppliers and there is no compulsion to have the checks carried out, let alone to use VOSA for them. Since customers are free to choose whether to use VOSA's service or go to other providers, this change has not been monetised in this Impact Assessment.

## Reduced Pollution Certificate examinations in Northern Ireland

26. Unlike all other fees covered by this Impact Assessment, Reduced Pollution Certificate fees also apply in Northern Ireland where physical inspections are carried out by the Driver & Vehicle Agency (DVA), which is an Executive Agency of the Department of the Environment. DVA carries out similar functions in Northern Ireland to those of VOSA in GB. They also operate driver testing and licensing and vehicle licensing functions in Northern Ireland. DVA only carry out vehicle examinations at their own test facilities so their fees are to continue to be treated in the same way as those for examinations at VOSA test facilities in GB – i.e. they will be increased by 4%.

## Other fee changes to be implemented at the same time as these changes

27. The changes detailed in this IA are part of a wider fee change package which VOSA plans to implement at the same time as the changes from this IA. Paragraphs 69 to 73 explain the combined effect of the total fee package.

## Longer term changes in HGV and PSV test fees

28. Following a review in 2008 of how statutory (annual) testing of HGVs and PSVs was delivered, the Minister (Jim Fitzpatrick) announced to the Commons on 3 July (reference 3) that VOSA had been tasked with providing tests at locations which are more convenient to customers. Delivery of this is referred to as the Testing Transformation Programme. To reduce the costs to the transport industry of annual testing, VOSA is planning to carry out more tests at non-VOSA test facilities located, primarily, where vehicles are maintained; and to reduce its own testing estate as alternative provision becomes available.

29. The decision to encourage more tests at locations where, or nearer to where, vehicles are maintained was based on a Business Case developed in accordance with Treasury investment appraisal principles set out in The Green Book - Appraisal and Evaluation in Central Government. The business case showed a net benefit to customers of around £8m in 2011/12 rising to around £43m per annum by 2020/21. A major contribution to this benefit comes from reduced vehicle downtime and reduced costs for vehicle presenter's staff time and vehicle mileage to bring vehicles to VOSA test locations.

30. The option of testing at non-VOSA locations nearer to vehicle locations was not available to all since the overall capacity on those facilities was insufficient to meet demand. The geographic coverage was also variable over the country so whilst in some areas the capacity of non-VOSA facilities was near to sufficient; in others no non-VOSA facilities were available. There were also issues with some vehicle presenters looking only at the visible cost of test fees or sticking to the traditional 'bring the vehicle to the tester' approach; rather than considering the overall cost of presenting the vehicle for test when deciding where to have their tests carried out.

[1] Published by the Office of National Statistics at http://www.statistics.gov.uk/instantfigures.asp

31. Additionally, had the previous service delivery model been continued, VOSA's testing estate costs would have increased dramatically to fund an estimated £70m of estate developments over the next few years. This is because VOSA's current testing estate was largely built or adapted in the late 1960s. Whilst test equipment has been replaced regularly, the fabric of many buildings is now worn out; some test stations are in locations which are not convenient for the road network as it has developed and/or are in areas which are now more residential, leading to environmental issues.

32. In addition to the above benefits, the new delivery model is seen as an opportunity to roll back Government provision of test facilities and create new opportunities for the private sector whilst maintaining the independence and integrity of the inspectors by keeping them within a Government Agency.

33. The aim is to achieve an ordered transition from public sector provision of testing facilities to private sector provision whilst maintaining accessibility of testing and not unduly disadvantaging those who do not yet have a realistic choice between VOSA and non-VOSA facilities. The pace of that change will depend on a number of factors, many of which are outside VOSA's control.

## The levers to achieve change

34. There are a number of levers which VOSA can use to encourage the development of the market. The main levers are:

- increasing the number of non-VOSA test facilities to provide more locations and encourage a competitive market in the provision of such facilities giving customers greater choice by, amongst other things, replacing the informal arrangements with DPs by a formal contract with new Authorised Testing Facilities (ATFs) setting out the responsibilities of VOSA and the ATF;
- helping customers to understand that the test fee is only part of the full cost of testing; and
- reducing, by closure and/or consolidation, the availability of VOSA facilities as the market in non-VOSA facilities develops;
- progressively altering differentials between the fees charged by VOSA for testing at VOSA and non-VOSA facilities.

35. However, use of those levers needs to balance their effects in areas where development of a market in test facility provision is reasonably advanced and VOSA can withdraw from the market in the near future, with ensuring that those customers in areas in which there is not yet a significant market are not unduly disadvantaged. VOSA also needs to consider that there may be areas in which there may never be a market. For these reasons, the levers are being used progressively.

36. The changes dealt with in this IA are aimed at ensuring that the single step in the progressive use of the fee differential lever ensures full cost recovery is achieved for this step.

## The fee differential lever

37. Under the charging structure introduced in the early 1990s, the cost of providing the VOSA testing estate was spread across all tests, and an additional charge was made by VOSA for testing at the non-VOSA test facilities to cover VOSA's costs to send staff out to test and the lower number of tests which could be completed. This gave a differential which favoured tests at VOSA facilities by charging some of the costs of providing the VOSA test facilities to those who were also paying for alternative provision.

38. It was decided to progressively move from that fee structure to one in which the cost of the VOSA facilities is met by those using them and that any additional costs of servicing non-VOSA facilities should be met only by users of non-VOSA facilities. This process was started in April 2009, when the supplements charged for testing at VOSA sites were halved. In April 2010, the supplements were removed completely. The proposals for the period starting towards the end of 2011/12 but expected to continue throughout 2012/13 (i.e. 2011/12 - 2012/13) included in this Impact Assessment start to reverse the differentials and are a further step in this direction. The table below illustrates the progression for a 2 axle HGV motor vehicle with Option 1 which we intend to adopt.

**Table illustrating progressive changes in differentials between tests at VOSA and non-VOSA test facilities**

| Year | Differential (extra cost of test at non-VOSA) | Total change in differential |
|---|---|---|
| 2008/9 | £13 | |
| 2009/10 | £7 | £6 |
| 2010/11 | £0 | £13 |
| 2011/12 - 2012/13 (adopted option) | -£5 | £18 |
| 2013/14 and beyond | See paragraph 29 below | |

39. VOSA will continue to review these differentials in future years within its normal fee review cycle to ensure that costs are at fully covered in any future changes. The eventual size of the differentials and the rate of progress towards them will be affected by a number of factors over many of which VOSA only has limited influence. Key amongst those factors are:

- the rate at which availability of non-VOSA facilities grows;
- the rate at which test customers move from VOSA to non-VOSA test facilities;
- the rate at which VOSA facilities can be reduced in size or closed;
- the rate at which surplus VOSA facilities can be disposed of;
- whether the surplus sites are VOSA owned or leased and the book value of owned sites compared to the proceeds from their sale;
- VOSA's costs of supporting non-VOSA test facilities
- what arrangements are made in future for the provision of test facilities in areas where no private sector market for the provision of facilities develops.

# Problem under consideration

40. Currently the fees charged by VOSA are the same regardless of location type. This creates the following main problems:

- Vehicle presenters who choose to use non-VOSA test facilities are contributing to the cost of maintaining VOSA facilities which they do not use whilst also having to meet the costs of the facilities they actually use.
- Those who choose to use VOSA test facilities are contributing to the cost (e.g. travel time and cost) of less efficient use of VOSA testing staff servicing non-VOSA test facilities.
- The current cost distribution may also discourage some from considering using non-VOSA test facilities offering them the benefits of reduced vehicle downtime which the greater choice of test locations and services at those locations can deliver.
- The current cost distribution may also discourage potential suppliers of test facilities from entering the market and offering the ultimate customers greater choice.

41. Proposals for fees in this IA must be considered within the context of VOSA's wider financial management strategy which is outlined more fully in its published Business Plans (reference 2) and

Annual Reports (reference 1). VOSA's published Annual Report for 2010/11 shows that the trading fund carried forward a retained deficit of almost £25.5 million into 2011/12. The published Business Plan for 2011/12 is to generate an in-year surplus of £5 million towards clearing that deficit. VOSA plans to achieve this without any general fee increase, using part of continuing efficiency savings to absorb inflation. For 2011/12, customers will benefit from VOSA's efficiency improvements and the real terms decrease in fees.

## Rationale for intervention

42. EU Council Directive 96/96/EC requires periodic roadworthiness tests of specified vehicles. The directive requires roadworthiness tests to be carried out by the State, or by a public body entrusted with the task by the State or by bodies or establishments designated and directly supervised by the State. In Great Britain this testing for HGVs and PSVs is carried out by the Vehicle and Operator Services Agency (VOSA) which is a Government Trading Fund within the Department for Transport. The provision of test facilities has also been primarily by Government, though, as described elsewhere in this IA, increasing levels of private sector provision have evolved over time. This increasing private sector involvement and evaluation of its potential continuation has now reached the point at which it is possible to start rolling back the level of Government provision of testing facilities in many parts of the country.

43. In addition, since most of the fees concerned are set in Regulations only by Government intervention can they be altered.

## Policy objective

44. The fee changes described in this IA are one step in one of several levers aimed at ensuring full cost recovery:

- whilst changing to a fairer distribution of those costs; and
- limiting the rate of increase of costs for those using VOSA test facilities.

## The options considered

45. The changes covered by this IA are a further step to progressively apply the differentiation lever by adjusting the balance of fees between different customers depending on the service delivery method they choose.

46. A public written consultation has been conducted in respect of the package of fee changes proposed by VOSA which includes the effects discussed in this and 2 other IAs (references 5 and 6). Responses relating to this IA are discussed more fully in paragraph 65 - 68 below.

47. Compared to "do nothing" (i.e. do not introduce differential fees at this time) we have considered the following options for fees covered in this Impact Assessment:

    - OPTION 1 – partial location cost differentiation in 2011/12 - 2012/13 – i.e. restructure fees to move towards full differentiation but limiting to 4% the increase of those fees which will rise.
    - OPTION 2 – full location cost differentiation in 2011/12 - 2012/13 – i.e. restructure fees to move to full differentiation between tests at VOSA and non-VOSA facilities in 2011/12 - 2012/13. This option estimates the maximum differential that could be applied in 2011/12 - 2012/13. However, it is difficult to predict what differentials would be in 2013/14 and beyond because of the factors mentioned above. Under some scenarios there could be difficulty in even maintaining the Option 2 differentials, let alone increasing them

48. The fundamental difference between the 2 options is in the pace at which the progressive change in fees, to relate them more closely to delivery method, moves. VOSA's preferred option is Option 1 since it delivers a further step in a longer term evolution whilst minimising the potentially destabilising medium term effects from the factors discussed earlier.

49. Whilst it could be argued that we should accept a greater risk of future reduction of differentials and adopt greater differentials on 2011/12 - 2012/13, VOSA considers this inappropriate because of:

- The need to ensure that VOSA covers its costs.
- The patchy nature of existing non-VOSA facilities which means that in some areas customers have no option to use non-VOSA sites and could be disadvantaged by the larger rises in fees at VOSA facilities needed to accelerate differential changes.
- The reduction in VOSA estate costs will lag behind the increase of tests at non-VOSA facilities because downsizing of the VOSA estate will only happed when adequate alternatives are likely to be available in a catchment area; and only then can redundant sites be sold off. If differentials favouring non-VOSA facilities were increased too rapidly and had then to be reduced it could damage trade confidence in predictable change making future progress towards the use of non-VOSA facilities more difficult.

## Costs and benefits of each option

**OIOO and Micro-business and start-up moratorium**

50. This measure alters the amount of fees but does not change the level of regulation and as such is out of scope of OIOO. It is therefore out of scope of the moratorium.

**Key assumptions, sensitivities and risk**

51. The following key assumptions have been made in considering both options evaluated in this Impact Assessment:

- *On average over the year 2011/12 - 2012/13 50% of the estimated 850.000 tests are assumed to be conducted at non-VOSA test facilities.* The accuracy of this assumption is dependent on the combined effect on the levers described in paragraph 24 and external factors beyond VOSA's control. Over the full evaluation period, it is certain that the proportion of tests at non-VOSA facilities will not remain at these levels. However, it is impossible to predict how the figures will vary. For this reason we have assumed that the split remains constant over the full 10 year appraisal period for the purposes of monetising the costs and benefits. The risk is that, in the short term, if fewer than 50% of tests are conducted at non-VOSA facilities, VOSA's income will be higher than expected. If more than 50% of tests are conducted at non-VOSA facilities there will be a shortfall in VOSA's income. The table below is a sensitivity analysis which illustrates the effect on annual income from the preferred option (Option 1) if the assumed 50/50 split of test locations is incorrect. As can be seen, each 5% more or fewer tests at non-VOSA alters VOSA's HGV and PSV test fee income by around 0.4%. Any variation will be taken into account in future fee reviews, both in terms of balances carried forward and assumptions on split of test locations until the next fee review. VOSA aims to carry out fee reviews annually, but this is not always possible.

**Sensitivity analysis of assumption of 50/50 split between VOSA and non-VOSA tsts**

| % of tests at non-VOSA facilities | 45% | 50% | 55% |
|---|---|---|---|
| Income from VOSA facilities (£m) | 31.2 | 28.4 | 25.5 |
| Income from non-VOSA facilities (£m) | 23.6 | 26.2 | 28.8 |
| **Total income (£m)** | **54.8** | **54.6** | **54.3** |
| Variation from assumed income (£m) | 0.2 | 0.0 | -0.2 |
| Variation from assumed income (%) | 0.4% | 0.0% | -0.4% |

- *No reduction in VOSA estate costs in 2011/12 - 2012/13*. The largest element of estate cost reduction will come from closure of sites and their disposal. The size and timing of the reduction is dependent on many of the factors outlined in paragraph 29. VOSA considers it unlikely that the estate cost reductions from any closures during 2011/12 - 2012/13 will have any significant effect on costs during that period. The same factors make it extremely difficult to predict which sites will close and when they will close. For the purposes of monetising the costs and benefits, VOSA has not assumed any reductions over the full appraisal period. Future periodic reviews of fee levels will take account of these savings as they materialise.

- *The impact on the PSV industry will not be significantly different to that on the HGV industry*. Annex B to this IA illustrates the effect on HGV operating businesses of various sizes, both in cash terms and relative to their overall operating costs. Because of lack of public domain data it has not been possible to carry out similar calculations for the PSV industry. However, as explained in paragraphs 72 and 73, the estimated total fee change proposed for the worst case PSV operator is less that the cost of 7 litres of diesel at forecourt prices.
- *Assumptions on the additional costs to VOSA of servicing non-VOSA facilities differ between options*. Option 2, which is the more aggressive transition to differentiating fees by location type, assumes that the testing transformation business case assumption (see paragraph 55) on the additional cost of servicing non-VOSA facilities is correct. The risk is that if those assumptions are overly pessimistic, fees at non-VOSA facilities could have been reduced further widening the differential more rapidly and that VOSA will over recover the cost. This would lead to further reductions in future years. Option 1 assumes that the testing transformation business case assumption does not materialise in 2011/12 - 2012/13. The risk here is that if the extra costs do materialise to any extent in 2011/12 - 2012/13, VOSA will under recover its costs and have to increase fees in future years. However since the premise for option 1 is that fees for tests at VOSA facilities will be increased further in future years it is improbable that the differential proposed in this option will be eroded in future.

## Do nothing

52. If nothing were done on fee differentials the other levers mentioned in paragraph 24 would still be used, however as mentioned in paragraph 42 this would mean that those presenting HGVs and PSVs for test, etc, at non-VOSA test facilities would continue to bear the same proportion of the costs of the VOSA testing facilities as at present. The movement towards better relating costs to service delivery methods, which started in 2009/10 with progressive removal of supplements, charged for tests at non-VOSA facilities, would stall.

53. This may also cause some to doubt VOSA's intent to continue to move tests to locations more convenient to customers. This would mean that the benefits of Testing Transformation from moving tests nearer to where vehicles are maintained or based (i.e. taking the tester to the vehicle rather than the vehicle to the tester) include reduced staff and fuel costs for the vehicle presenter, reduced vehicle downtime and reduction in the need for future fee increases to fund further modernisation of VOSA's testing estate would be put at risk. These benefits have not been monetised in this IA since it is not possible to determine what proportion of these longer term benefits can be attributed to the fee change proposed in this IA in isolation from past and future fee changes and the other levers. Failure to continue progressing fee differentials whilst recovering full costs, even if only temporary, may discourage some customers from exploring the benefit of testing closer to maintenance locations; and hamper VOSA's efforts to move more tests to non-VOSA facilities, delaying the planned reduction in the cost of VOSA's testing estate or even lead to increased VOSA costs to keep worn out test facilities operating for longer than would otherwise have been the case.

## OPTION 1 – partial location cost differentiation in 2011/12 - 2012/13

54. This option was considered because it was felt that a fee increase of the size necessary under option 2 would be difficult to absorb in one year and a longer transitional period would spread the increase in costs over time. This approach will also allow time for a competitive market in test facility provision to develop more evenly across most of the country and for test customers to adjust to the new delivery methods.

55. A further factor in favour of a longer transition is that forecasting the medium to long term cost changes and their timing is far from an exact science. This is particularly the case in two areas.

    - Testing Transformation will lead to significant reductions in the size of VOSA's testing estate and costs will be reduced as VOSA test locations are closed and disposed of. The rate at which these reductions are achieved is dependent on localised conditions in the market in non-VOSA facilities being created; and in the state of the property market which will affect the return from and timing of site disposals.

- Initial experience of the more formal arrangements with operators of non-VOSA test facilities is that both the extent and the timing of the increased costs to service non-VOSA facilities are questionable as explained in paragraph 55. However since option 1 proposes a more gradual transition than option 2 it is considered appropriate to assume that this trend will continue for 2011/12 - 2012/13 at least.

56. Option 1 therefore differs from option 2 in two important respects:

- the level of increases of fees for those using VOSA test facilities is limited to 4%, which is considered to be a more acceptable year on year change; and
- increases to the costs of servicing non-VOSA test facilities are assumed not to materialise to any significant degree during 2011/12 - 2012/13.

57. These changed parameters will mean that the changes will impose no cost increases on the industry as a whole, but that those using non-VOSA facilities will still bear some proportion of the cost of the VOSA facilities. VOSA's intention remains to take further steps in future years towards removing this cross subsidy, but, in view of the level of uncertainty mentioned above, considers that firm commitments on the extent of future changes to be an unacceptable risk.

58. Table 1 below shows how the VOSA costs attributed to HGV and PSV testing accounts would be recovered under Option 1

| | | 1 | 2 | 3 |
|---|---|---|---|---|
| | | Do nothing | Option 1 | |
| Contribution from | | (£m) | (£m) | % change |
| VOSA facilities | Base cost (i.e. without location specific costs) | 21.9 | 21.9 | |
| | VOSA testing estate costs | 5.4 | 6.4 | |
| | Total cost | 27.3 | 28.4 | 4% |
| non-VOSA facilities | Base cost (i.e. without location specific costs) | 21.9 | 21.9 | |
| | non-VOSA support costs | 2.2 | 2.2 | |
| | VOSA testing estate costs | 3.1 | 2.1 | |
| | Total cost | 27.3 | 26.2 | -4% |
| | Total to recover | 54.6 | 54.6 | |

**Table 1**

59. Column 1 shows how the costs would be split between VOSA and non-VOSA users under the "do nothing" option based on the assumed 50/50 split of test locations.

Column 2 splits how the costs would be split in the Option 1 scenario.

Column 3 shows the percentage change in costs for each location type, which would be reflected in fee changes under Option 1.

60. Annex A shows the effect on individual fees of adopting Option 1.

61. Annex B shows the overall effect on HGV operating costs of the changes proposed in Option 1. For those choosing to use VOSA test facilities, the typical annual fees paid to VOSA would increase by £3 (0.006% of operating costs) for the operator of a single 7.5 tonne HGV; or £1,308 (0.006% of operating costs) for a representative mixed fleet of 250 HGVs. Those being tested at non-VOSA facilities would see decreases £2 (0.004% of operating costs) and £811 (0.004% of operating costs) respectively. The rental and leasing sector would experience an increase equivalent to 0.021% of operating costs if tests were all carried out at VOSA and a decrease equivalent to 0.014% of operating costs is all tests were carried out at non-VOSA facilities.

**Direct impact on business and One In One Out (OIOO)**

62. Option 1 moves costs of £1.1m per year from those who choose to use non-VOSA test facilities to those who choose to use VOSA facilities; but does not change the cost to the road transport industry as a whole. The change in fees does not change the level of regulation and as such it is out of scope of OIOO.

## OPTION 2: full location cost differentiation in 2011/12 - 2012/13

63. Under this option, fees are restructured in 2011/12 - 2012/13 to charge the full cost of VOSA test facilities to customers that opt to use VOSA facilities and to charge the full cost of servicing non-VOSA facilities to those using non-VOSA facilities.

64. Table 2 below shows the estimated VOSA costs attributed to the HGV and PSV testing accounts and those costs which can be attributed to VOSA and non-VOSA facilities.

| Row | Description | 2010/11 projected | 2011/12 - 2012/13 planned |
|---|---|---|---|
| | Proportion of tests at non-VOSA facilities | 27% | 50% |
| | | (£m) | (£m) |
| A | Total costs attributed to HGV and PSV testing accounts | 54.6 | 56.4 |
| B | Additional costs for servicing non-VOSA test facilities (compared to VOSA test facilities) | 2.2 | 4.0 |
| C | Costs of VOSA testing estate | 8.5 | 8.5 |
| D | Base costs – i.e. non-location specific costs (A - (B + C)) | 43.9 | 43.9 |

**Table 2**

65. Row B shows the projected cost in 2010/11 which assumed that about 27% of tests would be carried out at non-VOSA facilities and the planned cost in 2011/12 - 2012/13 assuming around 50% of tests are carried out in non-VOSA facilities. The cost is for additional staff needed to service non-VOSA facilities (because of travelling time and less efficient layout of some facilities) and of travel costs of the testing staff. It is derived from estimates in the Testing Transformation business case that such costs are around £81k for each 1% of tests at non-VOSA facilities. One element within the Testing Transformation project is a more formal relationship with the non-VOSA facility providers which includes incentives to encourage the facility providers to use VOSA staff in a more efficient manner than had been the case. Initial experience with those facility providers who have moved to the more formal arrangement suggests that this cost may not grow at the predicted levels. However since the new arrangements only started to operate in the early part of 2010, it is unclear whether this lower than expected cost increase is as a result of the enthusiasm of the early adopters, masked by more general aspects of VOSA's efficiency improvements or an indication that the business case estimate was overly cautious. The aim in option 2 is to move to full cost differentiation, therefore, for the purposes of this option, the business case estimate has been assumed to be correct in the absence of widespread evidence to the contrary.

66. In respect of row C; major reduction in the cost of the VOSA estate cannot be achieved until sites can be shut and disposed of. Even once a site has been shut, it may take some time to end the lease of the premises; or to find a buyer and complete the sale. For owned sites, the difference between book value and proceeds of sale will vary from site to site. At the time of writing, VOSA has closed, but not yet disposed of test facilities at Birmingham and Mitcham. It has also announced its intention to close its test facilities at Glasgow, Liverpool, Gloucester, Stoke-on-Trent and Ipswich during 2011/12. It has not reached any final decisions on the future closure programme, which will be determined by how the market in non-VOSA test facilities develops. It is unlikely that any significant proceeds of sale of VOSA sites will be available to contribute significant cost reductions in 2011/12 - 2012/13. Thus, in 2011/12 - 2012/13 the cost of the VOSA testing estate will have to be spread over a decreasing number of tests, so each test will have to contribute a higher proportion of this cost.

67. In respect of row D; as explained in paragraph 31 above, much of the benefits from VOSA's efficiency improvements will have to go to recovering the accumulated deficit – customers will, however, benefit because VOSA will not pass on the effects of inflation. This means that for 2011/12 - 2012/13 row D is to be treated as a fixed cost.

68. Table 3 below shows how the VOSA costs attributed to HGV and PSV testing accounts would be recovered under Option 2.

| | | 1 | 2 | 3 |
|---|---|---|---|---|
| | | Do nothing | Option 2 | |
| Contribution from | | (£m) | (£m) | % change |
| VOSA facilities | Base cost (i.e. without location specific costs) | | 21.9 | |
| | VOSA testing estate costs | | 8.5 | |
| | Total cost | 27.3 | 30.4 | 11.6% |
| non-VOSA facilities | Base cost (i.e. without location specific costs) | | 21.9 | |
| | non-VOSA support costs | | 4.0 | |
| | Total cost | 27.3 | 26.0 | -4.8% |
| | Total to recover | 54.6 | 56.4 | |

**Table 3**

69. Column 1 shows the "do nothing" option in which the costs are split equally between the 2 delivery methods based on the assumed 50/50 split of test locations.

70. Column 2 splits only the base costs on a 50/50 basis and attributes the location specific costs to the relevant locations.

71. Column 3 shows the percentage change in costs for each location type, which would be reflected in fee changes under Option 2.

72. The actual percentage changes for individual fees would differ because of the other elements in the fees (see paragraphs 69 to 73) and because fees are rounded to whole Pounds.

73. The overall effect on HGV operating costs of the changes proposed in option 2 for those choosing to use VOSA test facilities, the typical annual fees paid to VOSA would increase by £8 (0.014% of operating costs) for the operator of a single 7.5 tonne HGV; or £3,366 (0.016% of operating costs) for a representative mixed fleet of 250 HGVs. Those being tested at non-VOSA facilities would see decreases of £2 (0.004% of operating costs) and £1,070 (0.005% of operating costs) respectively. The rental and leasing sector would experience an increase equivalent to 0.054% of operating costs if tests were all carried out at VOSA and a decrease equivalent to 0.018% of operating costs is all tests were carried out at non-VOSA facilities.

### Direct impact on business and One In One Out (OIOO)

74. Option 2 would decrease costs for those who choose to use non-VOSA test facilities by £1.3m per year but increase costs for those who choose to use VOSA facilities by £3.2m per year giving a net increase in costs to industry of £1.9m. However, since this would be an increase to recover costs and would not change the level of regulation it is out of scope of OIOO.

## Consultation results, preferred Option and implementation

75. VOSA conducted a public written consultation on this and other proposed changes to the fees it charges. Details of how the overall fee package interacts with these proposals are given under the heading "other proposed changes in fees not included in this IA" (paragraphs 69 to 73).

76. The main points from the consultation responses on questions related to changes proposed in this IA are:

- Ten respondents supported continuing to move towards the cost of VOSA test facilities being met by those using them. Two respondents did not support this policy - one generally and one particularly at this time. Opinions on the preferred option of reducing fees at non-VOSA by 4% and increasing those at VOSA by 4% were more mixed with six supporting the preferred the proposal and four opposing it. One respondent commented that the non-preferred option 2 of increasing fees at VOSA by 11.6% and reducing those at non-VOSA by 5.8% was too steep an increase, whilst expressing no opinion on the preferred option.
- Comments made across the two questions majored on the desire that VOSA should ensure adequate alternative provision in an area before closing its own test facility and on the fairness of differentiation when not all operators had the option of taking their vehicles to a non-VOSA facility.
- Nine respondents favoured keeping DVA fees for RPCs in Northern Ireland (see paragraph 16) at the same level as at VOSA facilities in GB – one disagreed with that view.
- One respondent believed that fees should not be set on the basis of "speculative volumes" whilst VOSA dose not fully understand how the market will develop or whether newer entrants will have the same enthusiasm as early adopters.
- One respondent considered it inappropriate to increase fees for RPC and LEC certificates which were issues without physical examination to the same level as those involving tests at VOSA facilities (see paragraph 14).

77. In considering which option to adopt, VOSA took account of the following main factors:

- While recognising concerns about the effect of increases for tests at VOSA on those with no access to non-VOSA facilities these must be balanced against effect on those using non-VOSA facilities who are paying the non-VOSA facility provider for the test facilities (the pit fee) yet still contributing to the cost of the VOSA estate which they don't use.
- Although not raised in any formal response, a further factor which has featured in discussions with potential non-VOSA facility providers is that many businesses considering setting up facilities see as unfair competition the fact that the fee charged for a test at VOSA is less than the VOSA fee for a test at a non-VOSA facility plus the pit fee. They are therefore reluctant to invest in a non-VOSA facility until the closure of their local VOSA facility is announced or the differential in VOSA fees is considerably wider than is currently proposed. Thus, both the rate of closure of VOSA facilities and the rate of change of differentials have an effect on the rate of establishment of new non-VOSA facilities; and therefore the availability of savings to many businesses from more convenient test locations.
- VOSA accept that although increasing fees for RPC and LEC for which there is no physical inspection to the same level as those where a physical inspection takes place at a VOSA facility makes for a simpler fee structure, it is probably an inappropriate burden on those using this service.

78. On balance, VOSA propose to implement a slightly modified option 1:

- The testing element of fees for tests at non-VOSA facilities will be reduced by 4% and that for tests at VOSA facilities will be increased by 4%.
- RPC and LEC fees involving tests at non-VOSA will also fall by 4%; those at VOSA facilities will rise by 4%.
- RPCs at DVA facilities in Northern Ireland will increase by 4% in line with the increase at VOSA facilities in GB.
- Fees for RPC and LEC applications which are determined without physical examination will not be changed.

### Other proposed changes in fees in 2011/12 - 2012/13 not included in this IA

79. VOSA also consulted on other changes to some fees which affect the cost of vehicle operation. These proposals which are part of its review of fees for 2011/12 - 2012/13 and are covered by separate Impact Assessments (references 5 and 6). The following paragraphs explain the combined effects. The chart below shows which fees are affected by which changes.

| | VOSA fees in GB | | | DVA fees in NI (paragraphs 3 and 16) |
|---|---|---|---|---|
| | VOSA / non-VOSA differentials (this IA) | National Register funding (IA reference 5) | PSV O licence application equalisation (IA reference 6) | |
| HGV O Licence | ☒ | ☑ | ☒ | ☒ |
| PSV O Licence | ☒ | ☑ | ☑ | ☒ |
| HGV Test (including notifiable alterations) | ☑ | ☒ | ☒ | ☒ |
| PSV Test | ☑ | ☑ | ☒ | ☒ |
| RPC (reduced pollution certificate) | ☑ | ☒ | ☒ | ☑ |
| Low Emission Certificate | ☑ | ☒ | ☒ | ☒ |
| Voluntary checks | ☑ | ☒ | ☒ | ☒ |

80. For HGVs, changes in operator licence fees to fund a National Register of operators of lorries buses and coaches and their transport managers are also proposed. These have no direct impact on test fees but do affect costs for operators. The effects of the operator licence fee changes are detailed in the IA at reference 5. Assuming that the preferred option on test fees and distribution of the cost of the National Register is adopted, the combined effect of the 2 changes on the operator of a single 7.5 tonne lorry would see their average fee bill:

- reduce by 47p per year (0.001% of operating costs) if the vehicle was tested at non-VOSA test facilities; and
- increase by £5 per year (0.009% of operating costs) if tested at a VOSA test facility.

These average figures include an allowances for average test failure rates; numbers of new licence applications and numbers of licence variation applications.

81. For PSVs the situation is more complex because:

- A small element of the PSV test fee (£3.20) contributes to funding PSV operator licensing. Thus the increase in fees to fund the National Register of licensed operators of goods vehicles, buses and coaches covered in the IA at reference 5 affects the calculation of fees for full PSV tests – though for most fees the effect on fees actually charged is lost because the fees charged are rounded to whole pounds.
- The funding of the National Register will also affect fees paid for applications for PSV operator licences and variation thereof.
- It is also proposed to alter application fees for standard and restricted PSV operator licences to reflect more correctly the cost of processing applications. These proposed changes are explained more fully in the IA at reference 6. Under the preferred option, the application fees would be equalised.

82. Because of this complexity and the lack of data on mix of vehicles within fleets it is difficult to produce a meaningful figure for the effect on individual operators. If we include average rates of new licence applications and variations to existing licences indicative figures suggest that the operator of a small PSV on a restricted licence would experience increases of between £4 and £9

per year and the operator of a large PSV on a standard licence would experience decreases of £6 to increases of £1. In both cases these are for tests at non-VOSA and VOSA facilities respectively.

83. The lack of public domain data on operating costs means that it is not possible to quantify the effect relative to their overall operating costs, but to put these changes into perspective even the largest increase is the equivalent of less than 7 litres of Diesel at March 2011 forecourt prices.

## Specific Impact Tests

### Statutory equality duties

84. The proposed policy is a change to fee levels. It does not change who has access to services, how they access those services or how they communicate with the Agency, thus the changes have no effect on statutory equality duties.

### Competition assessment

85. The proposed changes do not directly or indirectly limit the number or range of suppliers, limit the ability of suppliers to compete or reduce suppliers' incentives to compete vigorously. Operators of non-VOSA test facilities can make a charge (referred to as a pit fee) to those who choose to use their facilities for doing so. Operators of test facilities can compete on the level of pit fees they charge within maxima set in the formal contract with VOSA. They are also able to compete in other aspects of the overall service they offer their customers which may include elements of preparation of vehicles for test; as well as more convenient test locations. A full competition assessment has, therefore, not been carried out.

### Small firms impact test

86. The changes covered by this Impact Assessment are related to the use made of the services provided and do not change the extent to which businesses are required to use the services. They affect the cost per use of the service and as such have no greater impact on small businesses than on others. Small businesses and their representative bodies were specifically asked to respond to the consultation on the proposed changes. The fact that none choose to do so is taken as indication no significant level of concern.

### Greenhouse gas impact assessment

87. The differential between test fees at VOSA sites and other sites are expected to encourage more tests being carried out where vehicles are kept or maintained. However, the reduction in vehicle mileage specifically attributable to the fee changes proposed is not likely to have any significant effects on greenhouse gas emissions and has not been quantified.

### Wider environmental impact assessment

88. The fee changes proposed will have no predictable effects on wider environmental issues.

### Health and wellbeing impact assessment

89. The fee changes proposed will have no effect on health or wellbeing.

### Human rights

90. The proposals have no human rights impact.

## Justice impact test

91. The proposals have no impact on the justice system.

## Rural proofing

92. The proposals will have no significant impact on rural areas.

## Sustainable development

93. The proposals will have no significant effect on sustainable development.

# Annex A – Fees with preferred option (option 1)

**NOTE:** Fees for the non-preferred option may be found in the consultation stage Impact Assessment attached to the consultation document (Reference 4) but it should be noted that the non-preferred option (option 2 in this document) was option 1 in the consultation stage IA.

### HGV Test Fees

### Motor Vehicles

| Fee Description | 2010 fee Rounded | Enforcement element (unchanged) | 2010 testing element | 2011 testing element | 2011 fee (rounded) | Overall % change |
|---|---|---|---|---|---|---|
| **Test & retest beyond 14 days** | | | | | | |
| 2 Axle at VOSA | £95 | £38.52 | £56.69 | £58.96 | £98 | 3.2% |
| 3 Axle at VOSA | £120 | £38.52 | £81.15 | £84.39 | £123 | 2.5% |
| 4+ Axle at VOSA | £145 | £38.52 | £106.71 | £110.98 | £150 | 3.4% |
| 2 Axle at non-VOSA | £95 | £38.52 | £56.69 | £54.42 | £93 | -2.1% |
| 3 Axle at non-VOSA | £120 | £38.52 | £81.15 | £77.90 | £117 | -2.5% |
| 4+ Axle at non-VOSA | £145 | £38.52 | £106.71 | £102.44 | £141 | -2.8% |
| OOH Sup | £38 | £0.00 | £38.15 | £38.15 | £38 | 0.0% |
| **Retest up to 14 days *(paid)*** | | | | | | |
| 2 Axle at VOSA | £38 | £0.00 | £37.79 | £39.31 | £40 | 5.3% |
| 3 Axle at VOSA | £53 | £0.00 | £53.36 | £55.49 | £56 | 5.7% |
| 4+ Axle at VOSA | £70 | £0.00 | £70.03 | £72.83 | £73 | 4.3% |
| 2 Axle non-VOSA | £38 | £0.00 | £37.79 | £36.28 | £37 | -2.6% |
| 3 Axle at non-VOSA | £53 | £0.00 | £53.36 | £51.22 | £52 | -1.9% |
| 4+ Axle at non-VOSA | £70 | £0.00 | £70.03 | £67.23 | £68 | -2.9% |
| OOH Sup | £20 | £0.00 | £19.62 | £19.62 | £20 | 0.0% |
| **Retest – next day minor defects *(part paid)*** | | | | | | |
| All | £13 | £0.00 | £13.34 | £13.34 | £13 | 0.0% |

### Trailers

| Fee Description | 2010 fee Rounded | Enforcement element (unchanged) | 2010 testing element | 2011 testing element | 2011 fee (rounded) | Overall % change |
|---|---|---|---|---|---|---|
| **Test & retest beyond 14 days** | | | | | | |
| 1 Axle at VOSA | £43 | £14.98 | £27.79 | £28.90 | £44 | 2.3% |
| 2 Axle at VOSA | £57 | £14.98 | £42.24 | £43.93 | £59 | 3.5% |
| 3 Axle at VOSA | £68 | £14.98 | £53.36 | £55.49 | £71 | 4.4% |
| 1 Axle at non-VOSA | £43 | £14.98 | £27.79 | £26.68 | £42 | -2.3% |
| 2 Axle at non-VOSA | £57 | £14.98 | £42.24 | £40.55 | £56 | -1.8% |
| 3 Axle at non-VOSA | £68 | £14.98 | £53.36 | £51.22 | £67 | -1.5% |
| OOH Sup | £24 | £0.00 | £23.98 | £23.98 | £24 | 0.0% |
| **Retest up to 14 days *(paid)*** | | | | | | |
| 1 Axle at VOSA | £19 | £0.00 | £18.90 | £19.65 | £20 | 5.3% |
| 2 Axle at VOSA | £27 | £0.00 | £26.68 | £27.75 | £28 | 3.7% |
| 3 Axle at VOSA | £36 | £0.00 | £35.57 | £36.99 | £37 | 2.8% |
| 1 Axle at non-VOSA | £19 | £0.00 | £18.90 | £18.14 | £19 | 0.0% |
| 2 Axle at non-VOSA | £27 | £0.00 | £26.68 | £25.61 | £26 | -3.7% |
| 3 Axle at non-VOSA | £36 | £0.00 | £35.57 | £34.15 | £35 | -2.8% |
| OOH Sup | £13 | £0.00 | £13.08 | £13.08 | £13 | 0.0% |
| **Retest – next day minor defects *(part paid)*** | | | | | | |
| All | £7 | £0.00 | £6.67 | £6.67 | £7 | 0.0% |

# Annex A (continued) – Fees with preferred option (option 1)

## HGV Test Fees (continued)

**Notifiable alterations**

| Fee Description | 2010 fee Rounded | Enforcement element (unchanged) | 2010 testing element | 2011 testing element | 2011 fee (rounded) | Overall % change |
|---|---|---|---|---|---|---|
| with exam at VOSA | £27 | £0.00 | £26.68 | £27.75 | £28 | 3.7% |
| with exam at non-VOSA | £27 | £0.00 | £26.68 | £25.61 | £26 | -3.7% |
| without exam | £27 | £0.00 | £26.68 | £27.75 | £28 | 3.7% |
| OOH Sup | £13 | £0.00 | £13.08 | £13.08 | £13 | 0.0% |

**Appeal**

| | | | | | | |
|---|---|---|---|---|---|---|
| | £29 | £0.00 | £29.43 | £30.61 | £31 | 6.9% |

**Duplicate document**

| | | | | | | |
|---|---|---|---|---|---|---|
| | £13 | £0.00 | £13.08 | £13.08 | £13 | 0.0% |

## HGV and PSV fees for Reduced Pollution Certificates and Low Emission Certificates

| Fee Description | | 2010 Rounded | 2011 fee (rounded) | % change |
|---|---|---|---|---|
| Without examination | | £32 | £32 | 0.0% |
| With examination at Annual Test / CoIF | at VOSA / DVA | £19 | £20 | 5.3% |
| With examination at other times | at VOSA / DVA | £32 | £34 | 6.3% |
| With examination at Annual Test / CoIF | at non-VOSA (not applicable in NI) | £19 | £19 | 0.0% |
| With examination at other times | at non-VOSA (not applicable in NI) | £32 | £32 | 0.0% |
| Out of Hours supplement | (Not applicable in NI) | £12 | £12 | 0.0% |

# Annex A (continued) – Fees with preferred option (option 1)

## PSV test fees

NOTE: these fees include the effect of changes to the operator licence element of the fee to fund the National Register (see separate Impact Assessment at reference 5)

### Test & retest beyond 14 days

| Fee Description | 2010 fee Rounded | Enforcement element (unchanged) | 2010 O licence element | 2011 O licence element (from IA ref 5) | 2010 testing element | 2011 testing element | 2011 fee (rounded) | Overall % change |
|---|---|---|---|---|---|---|---|---|
| 23 + pass at VOSA | £135 | £39.60 | £3.20 | £3.25 | £92.38 | £96.08 | £139 | 3.0% |
| 9 - 22 pass at VOSA | £108 | £39.60 | £30.00 | £3.25 | £64.89 | £67.48 | £111 | 2.8% |
| 23 + pass at non-VOSA | £135 | £39.60 | £3.20 | £3.25 | £92.38 | £88.69 | £132 | -2.2% |
| 9 - 22 pass at non-VOSA | £108 | £39.60 | £3.20 | £3.25 | £64.89 | £62.29 | £106 | -1.9% |
| OoH sup 23+ pass | £52 | £0.00 | £0.00 | £0.00 | £52.32 | £52.32 | £52 | 0.0% |
| OoH sup 9 - 22 pass | £38 | £0.00 | £0.00 | £0.00 | £38.15 | £38.15 | £38 | 0.0% |

### Retest up to 14 days *(paid)*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 23 + pass at VOSA | £60 | £0.00 | £0.00 | £0.00 | £60.49 | £62.91 | £63 | 5.0% |
| 23 + pass at non-VOSA | £60 | £0.00 | £0.00 | £0.00 | £60.49 | £58.07 | £59 | -1.7% |
| 9 - 22 pass at VOSA | £42 | £0.00 | £0.00 | £0.00 | £41.79 | £43.46 | £44 | 4.8% |
| 9 - 22 pass at non-VOSA | £42 | £0.00 | £0.00 | £0.00 | £41.79 | £40.12 | £41 | -2.4% |
| OoH supp 23+ pass | £25 | £0.00 | £0.00 | £0.00 | £25.07 | £25.07 | £25 | 0.0% |
| OoH supp 9 - 22 pass | £19 | £0.00 | £0.00 | £0.00 | £18.53 | £18.53 | £19 | 0.0% |

### Retest – next day minor defects *(part paid)*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | £12 | £0.00 | £0.00 | £0.00 | £12.10 | £12.10 | £12 | 0.0% |

### Duplicate document

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | £10 | £0.00 | £0.00 | £0.00 | £0.00 | £0.00 | £10 | 0.0% |

# Annex B - Effect of Fee Changes on HGV Operating Costs

This Annex shows the data used and result of calculations of the effect of changes to HGV test fees as a result of location differentiation on the total amount paid in fees to VOSA and on the overall operating costs for HGV operating businesses of various sizes. To provide clarity on the effects of test fee differentiation, which is the subject of this Impact Assessment, operator licensing fees assumed not to change in this comparison. Paragraph 74 quotes the overall effect including the operator licence changes using the same method as in this Annex.

Part 1 shows the source data. Vehicle operating costs are taken from data published by the Road Haulage Association at the beginning of 2010 – they represent average costs. However these costs will obviously vary depending on the business model of individual operators. It has not been possible to carry out modelling of the effect on PSV operators because we have been unable to obtain equivalent data on PSV operating costs.

Part 2 shows the effect on those who choose to have their vehicles tested at VOSA facilities and at non-VOSA facilities under option 1. Part 2 also shows the effect on the overall operating costs of the rental and leasing sub-sector of the road freight industry.

A spreadsheet showing the detailed calculations is available on request from the contact mentioned on the first page of this Impact Assessment.

# Annex B - Effect of Fee Changes on HGV Operating Costs (continued)

## EFFECT OF FEE CHANGES ON HGV OPERATING COSTS – PART 1 SOURCE DATA

### Vehicle operating costs & fleet mix

**per vehicle, vehicle operating costs**

| . | Proportion of fleet | **Total Operating Costs** Source: Road Haulage Association "Cost tables 2010" | | | | **Rental and Leasing Industry (RLI) Costs** Including depreciation, licences, insurance, interest on capital, tyre and maintenance costs for motor vehicles from the RHA tables but excluding any element of overhead. Mileages per annum represent total vehicle mileages as used in RHA tables (regardless of who creates the mileage) for motor vehicles but are halved for trailers to take account of trailer to vehicle ratio of just under 2:1. | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Type | | Time PA | Mileage costs | Miles PA | Total PA | Type | Time PA | Mileage costs | Miles PA | Total PA |
| | | £ | p | Miles | £ | | £ | p | Miles | £ |
| 7.5t 2 axle rigid | 34% | £41,655 | 35.4 | 45,000 | £57,585 | 7.5t 2 axle rigid | £10,520 | 9.6 | 45,000 | £14,840 |
| 13t 2axle rigid | 7% | £46,950 | 40.9 | 45,000 | £65,355 | 13t 2axle rigid | £11,630 | 11.4 | 45,000 | £16,760 |
| 18t 2 axle rigid | 15% | £52,825 | 47.1 | 50,000 | £76,375 | 18t 2 axle rigid | £13,750 | 12.7 | 50,000 | £20,100 |
| 26t 3 axle rigid | 10% | £60,770 | 59.8 | 50,000 | £90,670 | 26t 3 axle rigid | £18,045 | 16.3 | 50,000 | £26,195 |
| 32t 4 axle rigid tipper | 6% | £66,245 | 72.4 | 50,000 | £102,445 | 32t 4 axle rigid tipper | £21,800 | 20.7 | 50,000 | £32,150 |
| 32 - 33t 2 + 2 axle artic | 3% | £65,114 | 61.2 | 60,000 | £101,834 | 32 - 33t 2 axle tractor | £14,445 | 9.7 | 60,000 | £20,265 |
| 38t 2 + 3 axle artic | 5% | £72,762 | 67.9 | 70,000 | £120,292 | 38t 2 axle tractor | £16,550 | 10.2 | 70,000 | £23,690 |
| 44t 3 + 3 axle artic | 20% | £79,407 | 75.4 | 70,000 | £132,187 | 44t 3 axle tractor | £7,730 | 11.6 | 70,000 | £15,850 |
| | | | | | | 3 Axle curtain trailer | £2,470 | 3.0 | 35,000 | £3,520 |

Fleet mix derived from DfT publication "Transport Statistics Great Britain 2009 Edition" – Tables 9.6 & 9.8

**Rental & Leasing Industry - fleet size**

| | | | | |
|---|---|---|---|---|
| | Proportion of commercial vehicle rental and leasing fleet provided by BVRLA members (source BVRLA website) | | | 65% |
| | | | BVRLA members | Total fleet |
| | Fleet size | Motor vehicles | 152,083 | 233,974 |
| NOTE: figures supplied by BVRLA are at 4/6/10 | | Trailers | 25,554 | 39,314 |

### O licence per licence fees

| | | | | |
|---|---|---|---|---|
| | | | Volumes from 2010/11 Business Plan | |
| Licences in issue | 91,950 | | Variations per year | 6,250 |
| New applications per year | 5,000 | | Continuations per year | 14,500 |

| | New App | Grant / Cont (5 years) | Variation | Average |
|---|---|---|---|---|
| 2010 | £250.00 | £391.00 | £250.00 | £108.79 |
| 2011 | £250.00 | £391.00 | £250.00 | £108.79 |
| Change | £0.00 | £0.00 | £0.00 | £0.00 |

### Data to enable calculation of average testing costs

| Failure rates (from 2010/11 VOSA business plan) | | | |
|---|---|---|---|
| Motor vehicles | 15.6% | Trailers | 15.0% |

| | | | | |
|---|---|---|---|---|
| MV to Trailer | 2.01 | Artic tractors | 119,400 | From Transport Statistics GB, 2009 edition (table 9.8) |
| | | Trailers | 240,100 | From Transport Statistics GB, 2009 edition (table 9.9) |

# Annex B - Effect of Fee Changes on HGV Operating Costs

## EFFECT OF FEE CHANGES ON HGV OPERATING COSTS – PART 2 OPTION 1

### Test fees by vehicle type

**At VOSA premises**

| Vehicle | 2 axle motor vehicle | | | 3 axle motor vehicle | | | 4 axle motor vehicle | | |
|---|---|---|---|---|---|---|---|---|---|
| | Test | retest | average veh | Test | retest | average veh | Test | retest | average veh |
| 2010 | £95.00 | £38.00 | £100.94 | £120.00 | £53.00 | £128.29 | £145.00 | £70.00 | £155.94 |
| 2011 | £98.00 | £40.00 | £104.25 | £123.00 | £56.00 | £131.76 | £150.00 | £73.00 | £161.41 |
| Op cost Change | £3.00 | £2.00 | £3.31 | £3.00 | £3.00 | £3.47 | £5.00 | £3.00 | £5.47 |

| Trailer | 2 axle trailer | | | 3 axle trailer | | |
|---|---|---|---|---|---|---|
| | Test | retest | average veh | Test | retest | average veh |
| 2010 | £57.00 | £27.00 | £61.04 | £68.00 | £36.00 | £73.39 |
| 2011 | £59.00 | £28.00 | £63.19 | £71.00 | £37.00 | £76.54 |
| Op cost Change | £2.00 | £1.00 | £2.15 | £3.00 | £1.00 | £3.15 |

**At non-VOSA premises (DP/ATF)**

| Vehicle | 2 axle motor vehicle | | | 3 axle motor vehicle | | | 4 axle motor vehicle | | |
|---|---|---|---|---|---|---|---|---|---|
| | Test | retest | average veh | Test | retest | average veh | Test | retest | average veh |
| 2010 | £95.00 | £38.00 | £100.94 | £120.00 | £53.00 | £128.29 | £145.00 | £70.00 | £155.94 |
| 2011 | £93.00 | £37.00 | £98.79 | £117.00 | £52.00 | £125.13 | £141.00 | £68.00 | £151.63 |
| Op cost Change | -£2.00 | -£1.00 | -£2.16 | -£3.00 | -£1.00 | -£3.16 | -£4.00 | -£2.00 | -£4.31 |

| Trailer | 2 axle trailer | | | 3 axle trailer | | |
|---|---|---|---|---|---|---|
| | Test | retest | average veh | Test | retest | average veh |
| 2010 | £57.00 | £27.00 | £61.04 | £68.00 | £36.00 | £73.39 |
| 2011 | £56.00 | £26.00 | £59.89 | £67.00 | £35.00 | £72.24 |
| Op cost Change | -£1.00 | -£1.00 | -£1.15 | -£1.00 | -£1.00 | -£1.15 |

### VOSA charges and proposed changes in charges as a proportion of operator business costs (using average test fee cost per vehicle)

| | | Operator business size (assuming all motor vehicles are specified on licence) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Micro ( 1 7.5t rigid) | | Small (4 mixed MVs - average per licence) | | Medium (10 mixed MVs) | | Large (250 mixed MVs) | |
| | | VOSA Charges 2011 | Change from 2010 | VOSA Charges 2011 | Change from 2010 | VOSA Charges 2011 | Change from 2010 | VOSA Charges 2011 | Change from 2010 |
| **Tests at VOSA** | **Total (£/year)** | £213 | £3 | £707 | £20 | £1,599 | £48 | £39,875 | £1,308 |
| | **% of cost** | 0.370% | 0.006% | 0.218% | 0.006% | 0.193% | 0.006% | 0.185% | 0.006% |
| **Tests at non-VOSA** | **Total (£/year)** | £208 | -£2 | £676 | -£12 | £1,519 | -£31 | £37,756 | -£811 |
| | **% of cost** | 0.360% | -0.004% | 0.209% | -0.004% | 0.183% | -0.004% | 0.175% | -0.004% |

### VOSA charges and proposed changes in charges as a proportion of rental and leasing industry costs of vehicle ownership and maintenance

| | | VOSA Charges 2011 (£m) | Change from 2010 |
|---|---|---|---|
| **If all tests at VOSA facilities** | **Total (£/year)** | £30.1 | £0.9 |
| | **% of cost** | 0.669% | 0.021% |
| **Tests all tests at non-VOSA** | **Total (£/year)** | £28.5 | -£0.6 |
| | **% of cost** | 0.634% | -0.014% |

| | |
|---|---|
| **Title:**<br>Funding National Register of licensed operators of goods vehicles, buses and coaches.<br>**IA No:** DfT00075<br>**Lead department or agency:**<br>Vehicle and Operator Services Agency of the Department for Transport - VOSA<br>**Other departments or agencies:** | **Impact Assessment (IA)**<br>**Date:** 16/11/11<br>**Stage:** Final<br>**Source of intervention:** Domestic<br>**Type of measure:** Secondary legislation<br>**Contact for enquiries**: John.MacLellan@vosa.gsi.gov.uk |

## Summary: Intervention and Options

**RPC:** GREEN

| Cost of Preferred (or more likely) Option | | | | |
|---|---|---|---|---|
| **Total Net Present Value** | **Business Net Present Value** | **Net cost to business per year** (EANCB on 2009 prices) | **In scope of One-In, One-Out?** | **Measure qualifies as** |
| -£1.0m | -£1.0m | NA | No | NA |

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

Operators of buses, coaches and lorries are licensed to ensure road safety and fair competition. The EC has found current rules on operator licensing inadequate because of a lack of consistency in the way that they are applied across Member States, resulting in unfair competition and issues around compliance and road safety. Intervention at EU level is necessary to provide the clarity and consistency required to address these problems given that this is a transnational issue. Intervention is then required at UK level in order to implement, enforce and monitor the new EU regulations. Iin particular Government intervention is necessary to fund a new National Register (NR) containing information about operators required by EU law.

**What are the policy objectives and the intended effects?**

The objective of the EU intervention is to ensure that consistent standards are applied and enforced across the EU. The intended effects are to create a more level playing field for transport operations across the EU and reduce distortion of competition; raise the professional standards of transport managers; reduce the administrative burdens on regulators, enforcers and operators; and enhance compliance with safety and other rules. The NR supports this aim by providing standardised information in support of future elements of the EU Regulation. The specific objective dealt with in this IA is to fund the creation and operating of the NR.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Doing nothing would not implement the NR requirement and would risk infraction proceedings.

Option 1: Fund NR by increasing fees for bus, coach and lorry operators licences. Within this option, a number of sub-options on which individual fees should contribute to the cost of the NR were considered. The choice of sub-option would not affect the overall cost to industry, although the more widespread the pool of payers, the less the effect would be on the individual fees. Consultees favoured the option which spread the cost over all standard and restricted licences (sub-option). Funding implementation of the NR from tax was also considered, but has not been pursued in view of spending constraints.

**Will the policy be reviewed?** It will not be reviewed. **If applicable, set review date:** Month/Year

| | | | | | |
|---|---|---|---|---|---|
| Does implementation go beyond minimum EU requirements? | | | No | | |
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base. | **Micro**<br>Yes | **< 20**<br>Yes | **Small**<br>Yes | **Medium**<br>Yes | **Large**<br>Yes |
| What is the $CO_2$ equivalent change in greenhouse gas emissions? (Million tonnes $CO_2$ equivalent) | | | **Traded:**<br>N/A | **Non-traded:**<br>N/A | |

***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.***

Signed by the responsible Minister: Mike Penning Date: 07/02/2012

## Summary: Analysis & Evidence

Policy Option 1

**Description:** Fund NR by increasing fees for bus, coach and lorry operators licences

**FULL ECONOMIC ASSESSMENT**

| Price Base Year 2010 | PV Base Year 2011 | Time Period Years 10 | Net Benefit (Present Value (PV)) (£m) | | |
|---|---|---|---|---|---|
| | | | **Low:** NA | **High:** NA | **Best Estimate:** -1.0 |

| **COSTS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Cost** (Present Value) |
|---|---|---|---|---|
| **Low** | NA | 5 | NA | **NA** |
| **High** | NA | | NA | **NA** |
| **Best Estimate** | 0.676 | | 0.048 | **1.0** |

**Description and scale of key monetised costs by 'main affected groups'**

1.) The transition costs of creating the National Register are estimated to cost £676,000 over 5 years, and the ongoing costs of maintaining the National Register are estimated at £12,000 in year 1, £36,000 in year 2 and £54,000 per year thereafter giving an average of £48,000 per year over the evaluation period. 2.) These costs would be passed on to operators through higher fees. The increase in operator license fees in 2011/12 is estimated at 1.6% with the chosen sub-option on how wide a pool of fees contribute.

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

N/A

| **BENEFITS (£m)** | **Total Transition** (Constant Price) | Years | **Average Annual** (excl. Transition) (Constant Price) | **Total Benefit** (Present Value) |
|---|---|---|---|---|
| **Low** | N/A | | N/A | **N/A** |
| **High** | N/A | | N/A | **N/A** |
| **Best Estimate** | NQ | | NQ | **NQ** |

**Description and scale of key monetised benefits by 'main affected groups'**

None of the benefits of Option 1 have been monetised in this impact assessment.

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

The NR is a tool to enable the larger package of measures contained in the EU Road Transport Package. Without the NR, the benefits of the overall package that are explained in the Impact Assessment of the overall package (Reference 3) could not be delivered. These benefits arise from more targeted and effective enforcement activity; improving safety, and helping to create a more level playing field.

**Key assumptions/sensitivities/risks** — **Discount rate (%)** 3.5

1) Main risk is of infraction proceedings by the EC if the Register is not implemented. 2) Key assumption is prediction of volumes of activity. 3) Costs greater than plan or lower volumes would mean a shortfall in VOSA's income and higher fees in future. Lower costs or higher volumes would have the reverse effect. 4) It is assumed that the effect on the Public Service Vehicle (PSV) industry will not be significantly different to that assessed for the Heavy Goods Vehicle (HGV) industry.

**BUSINESS ASSESSMENT (Option 1)**

| **Direct impact on business (Equivalent Annual) £m:** | | | **In scope of OIOO?** | **Measure qualifies as** |
|---|---|---|---|---|
| **Costs:** N/A | **Benefits:** N/A | **Net:** N/A | No | NA |

# Evidence Base (for summary sheets)

## References

| No. | Legislation or publication |
|---|---|
| 1 | VOSA Annual Report 2010/11<br>http://www.dft.gov.uk/vosa/repository/Annual%20Report%20201011.pdf |
| 2 | VOSA Business Plan 2011/12<br>http://www.dft.gov.uk/vosa/repository/VOSA%202011-12%20Business%20Plan.pdf |
| 3 | Link to consultation and IA on the EU Road Transport Package<br>http://www.dft.gov.uk/consultations/dft-2011-11 |
| 4 | Impact Assessment on lorry, bus and coach examination fees- location differentiation at:<br>To be added when known |
| 5 | Impact Assessment on restructuring fees for applications for bus and coach operator licences at:<br>To be added when known |

# GENERAL ISSUES

## Overall context

1. These proposals for fee increases to fund the National Register form part of the Vehicle and Operator Services Agency (VOSA)'s wider financial management strategy which is outlined more fully in its published Business Plans (reference 1) and Annual Reports (reference 2). VOSA's published Annual Report for 2010/11 shows that the trading fund carried forward a retained deficit of almost £25.5 million into 2011/12. The Business Plan for 2011/12 is to generate an in-year surplus of £5 million towards clearing that deficit. VOSA plans to achieve this without any general fee increase, using part of continuing efficiency savings to absorb inflation. For 2011/12, customers will benefit from VOSA's efficiency improvements and the real terms decrease in fees. Thus VOSA must make efficiency savings to absorb inflation but also to start recovering the retained deficit. This leaves no margin to absorb the costs of additional services such as the National Register.

# Background

2. The EU has introduced a package of measures (the Road Transport Package) to address issues of unfair competition, compliance and road safety. One element of this package is the creation (by December 2011) of a National Register containing specified details about licensed road transport operators, their transport managers and certain offences committed by either. The Road Transport Package was subject to a separate Impact Assessment (at reference 3) which is the subject of a recent consultation by the DfT.
3. Later in the implementation of the package, these registers will be shared amongst Member States. The cost of that sharing does not form part of this Impact Assessment. This will improve the effectiveness of exchange of information with licensing authorities in other Member States with the aim of improving the sometimes disappointing response from some when notified of defects on foreign vehicles.
4. Whilst in Great Britain (GB), VOSA, on behalf of Traffic Commissioners, already holds much of the required data in support of the GB operator licensing system, some additional data is required which means that the existing database has to be altered and additional data has to be collected, and are not required to share all of the information on the existing database. This additional service imposes additional costs on VOSA. In view of VOSA's overall financial situation additional funding is needed to carry out this additional work.

5. The National Register will also contain data on operators based in other parts of the UK (i.e. Northern Ireland and Gibraltar). Administrations in those territories will be responsible for the cost of including their data in the register.

## Rationale for intervention

6. The purpose of licensing operators of buses, coaches and lorries is to ensure road safety and fair competition by ensuring that operators have the financial resources and management systems to ensure that their vehicles are adequately maintained, not overloaded and their drivers are not over tired because of breaking drivers' hours laws.
7. The EC has found current rules in respect of some aspects of licensing of operators of HGVs and PSVs inadequate because of a lack of consistency in the way that they are applied across Member States, resulting in unfair competition and issues around compliance and road safety. Intervention at EU level is necessary to provide the clarity and consistency required to address these problems given that this is a transnational issue. Intervention is then required at the UK level in order to implement, enforce and monitor the new regulations.
8. The objective of this intervention is to ensure that consistent standards are applied and enforced across the EU. The intended effects are to: create a more level playing field for international transport operations across the EU and reduce distortion of competition; raise the professional standards of the industry's transport managers; reduce the administrative burdens on regulators, enforcers and operators; enhance compliance with safety, social and technical rules; and, lessen the environmental impacts of road transport, notably through reducing empty running. To do this the EU has introduced a package of measures (the Road transport Package). This package is dealt with more fully in the Impact Assessment at reference 3.
9. One element of the package requires a National Register (NR) containing information about operators of lorries buses and coaches, which would provide the base information needed by various elements of the package. Much of the data is already held by VOSA on behalf of the Traffic Commissioners and it is more cost-effective to build on this existing data rather than duplicate it.
10. The changes to the database to hold the additional information required, and the collection and maintenance of that data mean extra costs for VOSA. VOSA is unable to absorb this extra cost and must therefore increase fees to pay for the National register. Since the fees are set in secondary legislation and VOSA is a Government Trading Fund, this can only be achieved by Government intervention.

## Policy objective

11. The objectives of the fee changes proposed in this IA are to fund the National Register; and to ensure that the fees charged for particular services cover the costs of those services and are proportionate to the cost of providing the class of service concerned.
12. The objective of the National Register is to provide standardised information to support processes to ensure that consistent standards on operator licensing are applied and enforced across the EU. The intended effect of those processes is to create a more level competitive playing field for transport operations across the EU; raise the professional standards of the industry's transport managers; reduce the administrative burdens on regulators, enforcers and operators; enhance compliance with safety, social and technical rules; and, lessen the environmental impacts of road transport, notably through reducing empty running. The requirement for the NR and the processes is contained in EU Regulations (1071/2009/EC, 1072/2009/EC and 1073/2009/EC). More detail on this can be found in the Impact Assessment at reference 3. The fee change itself will not affect operator behaviour. However, without the National register, the benefits detailed in the Impact Assessment at reference 3 cannot be obtained.

# Options Considered

13. If nothing were done the UK would be at risk of fines should the European Commission instigate infraction proceedings. . There would also be a reputation risk to the UK since the UK supported the Road Transport Package as a means of creating fairer competition; raising the professional standards of the industry's transport managers; reducing the administrative burdens on regulators, enforcers and operators; and enhancing compliance with safety, social and technical rules. In practice, “do nothing” is not an option since the UK is required by EU Regulations to implement a National register.

14. The following options have been considered:

- Create a National Register funded from taxation; and
- Create a National Register funded from fees charged to those authorised (or applying to become authorised) to operate Heavy Goods Vehicles (HGVs); and buses and coaches, known as Public Service Vehicles (PSVs).

15. However, the option to create a National register funded from taxation was not pursued. Funding of the register has followed the existing policy of VOSA / DfT that the costs of VOSA services are covered by fees unless the agency is requested to carry out specific work by the Department that falls outside the scope of its statutory services.

16. Therefore, the only policy option considered in this impact assessment is a National Registered funded from fees (Option 1). However, within this option, there are a number of sub-options on which individual fees should contribute to the cost of the NR, such as whether to include ‘restricted licences’ and applications for ‘variations’ within the contributing pool.

# Costs and benefits of Option 1

### Direct impact on business and One In One Out (OIOO)

17. The direct cost to business of the additional fees to pay for the National Register has been estimated at around £177,000 per year over the 5 year transition period and around £54,000 per year in subsequent years.

18. The National Register is being created to comply with EU law. As such, it is exempt from OIOO.

### Costs of Option 1

19. The business case for the project to create and operate the national register estimates the cost of setting up the National Register at £676,000. The estimate is based on our understanding at the time of preparing this IA of the scope of changes which would be needed and comprises:

    - an estimated capitalised cost, written off over 5 years, of £258,000 for
        - changes to the existing Operator Licensing Business System software and hardware to collect the additional data needed;
        - implementing connections to other systems (e.g. Courts) to enable more thorough and efficient checks of repute of transport managers; and
        - software development and hardware for the National Register database itself to pull together the data from the various sources
    - an estimated £377,000 for project management and collection and entry for the additional data on existing operators and their transport managers; and
    - an estimated £41,000 interest on the loan to cover the above costs until they can be recouped via fee income.

20. These costs are treated as “transition” costs in the “Summary: Analysis and Evidence and spread over 5 years. Five years was chosen as the transition period as being the fairest way to spread the cost across the industry because some of the fees which are being increased to cover these transition costs are paid once every 5 years.

21. The ongoing costs of collecting entering the additional data and maintaining the National Register are estimated at £6,000 in maintenance costs for the additional software and hardware (20% of capital cost of system changes); and staff costs to keep the additional data current of £6,000 in year 1, £30,000 in year 2 and £48,000 per year (2 FTEs at VOSA level 2) thereafter giving an average annual cost over the 10 year evaluation period of £48,000. Cost of staff engaged on data maintenance ramp up over the initial period as work moves from the initial data collection and entry phase covered in the transitions costs above to business as usual. These costs are treated as "average annual" costs. This estimate is based on estimates of the cost of work involved in collecting the data, entering it on the register, updating the data over time and additional charges from VOSA's Information Technology supplier for the ongoing maintenance of the enhanced system.

22. Thus, the total additional revenue needed by VOSA in each of the first 5 years is estimated as £177,000 and the total additional annual revenue needed in subsequent years is estimated at £54,000. The transition costs will drop out of the costs included in calculating fees at the end of the 5 year period.

23. The fees over which this cost is spread cover the costs of:

- determining applications for licences or to vary licences;
- maintaining the operator licensing system; and
- action by Traffic Commissioners to encourage operators to continue to comply with their legal obligations and take action to secure improvement or limit or remove the licences of operators who do not appear to meet the required standards.

24. Within Option 1, there are sub-options on how this cost is divided up amongst the potential pool of fee payers (the more in the pool the lower the percentage increase in fees that would be needed). However, the estimated total costs to industry (which is shown on the 'Summary: Analysis and Evidence' sheet) would remain the same regardless of which sub-option is selected, so separate summary sheets have not been produced for the individual sub-options.

25. Although both HGV and PSV licences have *standard* and *restricted* licences, the criteria differ. For HGVs the distinction is whether other people's goods are carried, but there are no restraints on fleet size. *Restricted* HGV licence holders range from farmers with a single vehicle to move their own produce to large fleets operated by food retailers. *Standard* licences would range from the farmer with a single vehicle who also wanted to carry his neighbour's produce to large multi-national haulage contractors. For PSVs, *restricted* licences only allow the use of up to 2 vehicles. Normally each vehicle cannot carry more than 8 passengers, but in if used "otherwise than in the course of a passenger carrying business" or "by a person whose main occupation is not the operation of public service vehicles adapted to carry more than 8 passengers" vehicles can accommodate up to up to 16 passengers. *Restricted* licences are held by businesses such as hotels and car park operators who operator 1 or 2 courtesy buses, so holding a *Restricted* PSV licence is no indication of business size.

26. It would be possible for different sub-options to be applied for HGVs and PSVs. However, as there are over 90,000 HGV licences in issue compared to around 9,000 PSV licences, by far the largest influence on the percentage change to fees in the contributing pool is the HGV option.

27. The following sub-options on which fees to include in the pool of fees from which the costs are recovery are:

    a. *standard* licences only – fees for *application* for standard licences and those charged on *grant* of licences and every 5 years thereafter on *continuation* of the licence;

    b. *standard* licences plus *variations* – as sub-option 'a' but with the addition of fees for applications for *variation* of specified conditions on licences in force;

    c. *all* licences – as sub-option 'a' but including both *standard* and *restricted* licences; and

    d. *all* licences plus *variations* – sub-option 'b' but including both licence types – this is the preferred option.

28. To raise £177,000 per year, our estimates are that under Sub-option 'a' we would need to increase the estimated income of around £4.8 million from fees within the pool by about 3.7%. To raise the same amount under Sub-option 'd' we would need to increase fees within the wider pool with an estimated income of about £11.1 million by about 1.6%. Other options would fall between the two illustrated above.

29. Annex 1 illustrates the estimated impact of the preferred sub-option on individual fees. It should be noted that the percentage change to individual fees would vary from that quoted above because fees are rounded to whole pounds.

30. For PSVs the picture is more complex, since part of the cost of operator licensing is funded from a small element on PSV annual test fees. In practice, because VOSA rounds the fees it charges to whole pounds, the small adjustment to test fees to fund the National Register would not affect the fee actually charged. This, and the interaction with other proposed fee changes, is explained more fully in paragraph 36 below. Annex 1 therefore only illustrates the effect on operator licence fees.

31. As an example, Annex 2 illustrates the calculations used to estimate the overall fee burden on HGV operators of the preferred option and to relate that to their overall operating costs. This takes account of the fact that grant/continuation fees for HGVs cover a 5 year period and includes an element for the proportion of new operators (who pay application fees) and of existing operators who pay variation fees. The estimates suggest that for the preferred option (sub-option ‘d’) the overall annualised burden of fees would increase by £1.69 per operator on average in 2011/12. For the operator of a single HGV vehicle, the estimates suggest this change would add about 0.8% to the average annualised fees paid to VOSA in 2011/12, including vehicle test fees. However, based on operating cost data published by the Road Haulage Association at the beginning of 2010, this represents about 0.003% of their total vehicle operating cost.

32. Only HGV impact can be modelled since public domain data on PSV operating costs is not available; however, VOSA have no reason to believe that the effect on PSV operators would be significantly different.

## Benefits of Option 1

*33.* The National Register is a tool to enable the larger package of measures contained in the EU Road Transport Package. The impact of the overall package is assessed in a separate Impact Assessment which has been published in a recent DfT consultation which can be found at reference 3. The benefits of the overall package could not be delivered without the NR. The monetised benefits are summarised as follows: *“Improved compliance/ safety of foreign registered haulage vehicles would be expected to lead to a reduction in the number of fatal accidents that this type of vehicle is involved in. The main difference between the best estimate and high scenarios in terms of benefits is that the assumed reduction in the number of accidents is greater in the high than in the best-estimate scenario during the first 3 years. After that the assumed reduction is the same (10%, i.e., 3.5 fatalities) and, therefore, benefits are very similar.”*

## Consultation responses and chosen sub option

34. A public consultation on VOSA’s 2011 fee proposals, which took place in June and July 2011, included several questions on which sub-option should be adopted. Some consultees considered that the National Register should be tax funded but such funding was not available. Of the available options, the majority of respondents favoured sub-option “d”, which spreads the costs as widely as possible to minimise the change for individual fee payers. In light of this response sub-option “d” is to be adopted.

**Other proposed changes in fees in 2011/12 not included in this IA**

35. VOSA is also consulting on two other changes to some fees which would affect the cost of vehicle operation. These other proposals are explained in separate IAs (references 4 and 5). Together with the proposal in this IA, they make up the proposed changes from VOSA's review of fees for 2011/12. The table below indicates which changes affect which fees.

| | VOSA fees in GB | | |
|---|---|---|---|
| | VOSA / non-VOSA differentials (IA reference 4) | National Register funding (this IA) | PSV O licence application equalisation (IA reference 5) |
| PSV O Licence | | ☑ | ☑ |
| PSV Test | ☑ | ☑ | |
| RPC (reduced pollution certificate) | ☑ | | |
| Low Emission Certificate | ☑ | | |
| Voluntary checks | ☑ | | |
| HGV O Licence | | ☑ | |
| HGV Test (including notifiable alterations) | ☑ | | |
| | | | |
| Overall change to business costs – assuming constant volumes (£k per year) | 0 | 177 | 0 |

36. For HGVs, changes in annual test fees to reduce the cost of tests at non-VOSA facilities and increase the cost of tests at VOSA test facilities are also proposed. These changes would have no direct impact on operator licence fees but would affect testing costs for operators either directly or indirectly by reducing costs for tests carried out at non-VOSA test facilities and increasing costs at VOSA facilities. The effects of the test fee changes are detailed in the IA at reference 4. Assuming that the preferred option on test fees is adopted and that the preferred sub-option in this IA is adopted, it is estimated that the combined effect of the 2 changes on the average fee bill for the operator of a single 7.5 tonne lorry would be:

- a reduction of 47p per year (0.001% of operating costs) if the vehicle was tested at non-VOSA test facilities; or
- an increase of £5 per year (0.009% of operating costs) if tested at a VOSA test facility.

These estimates include the effect of average test failure rates; proportion of new licence applications and proportion of applications for variation of conditions on licences. If other sub-options on the distribution of the cost of the National Register were adopted, the effect on individual operators would be reduced, but a larger number of operators would be affected.

37. For PSVs the situation is more complex:

- It is proposed to reduce the fees for annual tests conducted at non-VOSA test facilities and increase fees for tests at VOSA facilities in the same way as HGVs. This is explained in the IA at reference 4.
- A small element of the PSV test fee (£3.20) contributes to funding PSV operator licensing. Thus, the increase in fees to fund the national register of licensed operators of goods vehicles, buses and coaches covered in this IA would affect the calculation of fees for full PSV tests – increasing the licensing element by 5p to £3.25, although in all cases the effect on the fees actually charged would be lost because the fees charged are rounded to whole pounds.
- Changes are also proposed to application fees for standard and restricted PSV operator licences to reflect more correctly the cost of processing applications. These proposed changes are explained more fully in the IA at reference 5. Under the preferred option, the application fees would be equalised. For completeness, Table 2 of Annex 1 shows the combined effect of both changes.

- Because of this complexity and the lack of data on mix of vehicles within fleets, it is difficult to produce a meaningful estimate of the effect on individual operators. Indicative estimates of the combined effects of all three changes are that the average annual fee bill for the operator of one small PSV on a restricted licence would increase by between £4 (if tested at a non-VOSA test facility) and £10 (if tested at a VOSA test facility) and that the average annual fee bill for the operator of one large PSV on a standard licence would either decrease by £6 (if tested at a non-VOSA test facility) or increase by £1 (if tested at a VOSA test facility).
- The lack of public domain data on operating costs means that it is not possible to estimate the impact on their overall operating costs, but to put these changes into perspective, even the largest increase is the equivalent of less than 8 litres of Diesel at September 2011 forecourt prices.

## Policy review

38. A Post Implementation Review of the Road Transport Package as a whole will be conducted as detailed in the consultation at reference 3. The level of fees charged is reviewed annually as part of VOSA's financial management process.

## Specific Impact Tests

### Equality assessment

39. The proposed policy is a change to fee levels. It would not change who has access to services, how they access those services or how they communicate with the Agency. Thus the changes would have no effect on statutory equality duties.

### Competition assessment

40. The proposed changes would not directly or indirectly limit the number or range of suppliers, limit the ability of suppliers to compete or reduce suppliers' incentives to compete vigorously. Therefore, a full competition assessment has not been carried out.

### Small firms impact test

41. The changes covered by this Impact Assessment are related to the use made of the services provided and do not change the extent to which businesses are required to use the services. Fees are charged per transaction regardless of business size since business size has little influence on the cost of providing the service. Indicative estimates in this impact assessment (see Annex 2) suggest that the worst case impact of the preferred sub-option would be to increase total vehicle operating costs (for the operator with a standard licence and a single 7.5 tonne HGV tested at VOSA test facilities) by about 0.003%. This is a minute proportion of the cost of operating even a single vehicle, so it is not considered that this would have a significant impact on small businesses. Small businesses and their representative bodies will be specifically informed of the consultation on the proposed changes.

### Greenhouse gas impact assessment

42. These fee changes would have no effect on greenhouse gas emissions.

### Wider environmental impact assessment

43. The fee changes proposed would have no predictable effects on wider environmental issues.

### Health and wellbeing impact assessment

44. The fee changes proposed would have no effect on health or wellbeing.

## Human rights

45. The proposals would have no human rights impact.

## Justice impact test

46. The proposals would have no impact on the justice system.

## Rural proofing

47. The proposals would have no significant impact on rural areas.

## Sustainable development

48. The proposals would have no significant effect on sustainable development.

## ANNEX 1 – PROPOSED FEES

HGVs – only operator licence fees would be affected by proposed changes to fund the National Register.

### HGV O Licence Fees under the Goods Vehicles (Licensing of Operators) (Fees) Regulations 1995 (SI 1995/3000)

| Fee Description | 2010 Fee Unrounded | 2010 Fee Rounded | 2011 Fee Unrounded | 2011 Rounded fee | Overall % change |
|---|---|---|---|---|---|
| Application | £249.90 | £250.00 | £253.90 | £254.00 | 1.6% |
| Grant of Licence | £390.60 | £391.00 | £396.85 | £397.00 | 1.5% |
| Continuation of Licence | £390.60 | £391.00 | £396.85 | £397.00 | 1.5% |
| Interim Licence issue | £66.15 | £66.00 | £67.21 | £68.00 | 3.0% |

PSVs – operator licence fees will also be affected by the proposed changes to equalise application fees for *standard* and *restricted* PSV operator licence fees detailed in a separate Impact Assessment (paragraphs 34 & 36 and reference 5). **Table 1** below shows what the effect on these fees would be if only changes in the preferred sub-option for funding the national register were adopted and are shown for illustrative purposes only. **Table 2** below shows the effect when both changes are implemented and are the proposed fees which will actually be charged. As costs of ongoing maintenance of PSV licences are funded via PSV test fees (paragraphs 30 and 36) the NR funding will have a theoretical effect on PSV test fees. In practice this effect is lost in rounding fees to whole pounds.

### PSV O Licence Fees under the Public Service Vehicles (Operators' Licences) (Fees) Regulations 1995 (SI 1995/2909)

| Fee Description | 2010 Fee Unrounded | 2010 Fee Rounded | 2011 Fee Unrounded | 2011 fee rounded | % change | Change from rounded fee in 2010 |
|---|---|---|---|---|---|---|
| Application - Standard Licence | £235.20 | £235.00 | £238.96 | £239.00 | 1.7% | £4.00 |
| Application - Restricted licence | £155.40 | £155.00 | £157.89 | £158.00 | 1.9% | £3.00 |
| Variation application - all licence | £118.65 | £119.00 | £120.55 | £121.00 | 1.7% | £2.00 |
| Application - special licence | £60.90 | £61.00 | £60.90 | £61.00 | 0.0% | £0.00 |
| Continuation - special licence | £60.90 | £61.00 | £60.90 | £61.00 | 0.0% | £0.00 |

**Table 1 – PSV operator licence fees without the effect of application fee equalisation**

| Fee Description | 2010 Fee Unrounded | 2010 Fee Rounded | 2011 Fee Unrounded | 2011 fee rounded | % change | Change from rounded fee in 2010 |
|---|---|---|---|---|---|---|
| Application - Standard Licence | £235.20 | £235.00 | £205.96 | £206.00 | -12.3% | -£29.00 |
| Application - Restricted licence | £155.40 | £155.00 | £205.96 | £206.00 | 32.9% | £51.00 |
| Variation application - all licence | £118.65 | £119.00 | £120.55 | £121.00 | 1.7% | £2.00 |
| Application - special licence | £60.90 | £61.00 | £60.90 | £61.00 | 0.0% | £0.00 |
| Continuation - special licence | £60.90 | £61.00 | £60.90 | £61.00 | 0.0% | £0.00 |

**Table 2 – PSV operator licence fees including the effect of application fee equalisation**

**ANNEX 2 – Evaluation of Impact on HGV operators**

This Annex shows the data used and result of calculations of the effect of increases to HGV operator licence fees to fund the National Register on the total amount paid in fees to VOSA and on the overall operating costs for HGV operating businesses of various sizes. To provide clarity on the effects of the operator licence fees which are the subject of this Impact Assessment, test fees are assumed not to change in this comparison.

Part 1 shows the source data. Per annum (PA) vehicle operating costs are taken from data published by the Road Haulage Association at the beginning of 2010 – they represent average costs. However, these costs will obviously vary depending on the business model of individual operators. It has not been possible to carry out modelling of the effect on PSV operators because we have been unable to obtain equivalent data on PSV operating costs.

Part 2 shows the estimated impact of the National Register on operating costs under the preferred sub-options (sub-option 'd').

A spreadsheet showing the detailed calculations is available on request from the contact mentioned on the first page of this Impact Assessment.

## Part 1: Source data

## Vehicle operating costs & fleet mix

### per vehicle, vehicle operating costs

| . | Proportion of fleet | Total Operating Costs Source: Road Haulage Association "Cost tables 2010" | | | |
|---|---|---|---|---|---|
| Type | | Time PA | Mileage costs | Miles PA | Total PA |
| | | £ | p | Miles | £ |
| | | | | | |
| 7.5t 2 axle rigid | 34% | £41,655 | 35.4 | 45,000 | £57,585 |
| 13t 2axle rigid | 7% | £46,950 | 40.9 | 45,000 | £65,355 |
| 18t 2 axle rigid | 15% | £52,825 | 47.1 | 50,000 | £76,375 |
| | | | | | |
| 26t 3 axle rigid | 10% | £60,770 | 59.8 | 50,000 | £90,670 |
| | | | | | |
| 32t 4 axle rigid tipper | 6% | £66,245 | 72.4 | 50,000 | £102,445 |
| | | | | | |
| 32 - 33t 2 + 2 axle artic | 3% | £65,114 | 61.2 | 60,000 | £101,834 |
| 38t 2 + 3 axle artic | 5% | £72,762 | 67.9 | 70,000 | £120,292 |
| 44t 3 + 3 axle artic | 20% | £79,407 | 75.4 | 70,000 | £132,187 |

Fleet mix derived from DfT publication "Transport Statistics Great Britain 2009 Edition" – Tables 9.6 & 9.8

**Data to enable calculation of average testing costs**

| Failure rates (from 2010/11 VOSA business plan) | | | |
|---|---|---|---|
| Motor vehicles | 15.6% | Trailers | 15.0% |

| MV to Trailer ratio | 2.01 | Artic tractors | 119,400 | From Transport Statistics GB, 2009 edition (table 9.8) |
|---|---|---|---|---|
| | | Trailers | 240,100 | From Transport Statistics GB, 2009 edition (table 9.9, 2008/09) |

### Test fees by vehicle type

To illustrate the effects of NR funding in isolation changes to test fees differentiate between test locations have been ignored.

| Vehicle | 2 axle motor vehicle | | | 3 axle motor vehicle | | | 4 axle motor vehicle | | |
|---|---|---|---|---|---|---|---|---|---|
| | Test | retest | average veh | Test | retest | average veh | Test | retest | average veh |
| 2010 | £95.00 | £38.00 | £100.94 | £120.00 | £53.00 | £128.29 | £145.00 | £70.00 | £155.94 |
| 2011 | £95.00 | £38.00 | £100.94 | £120.00 | £53.00 | £128.29 | £145.00 | £70.00 | £155.94 |

| Trailer | 2 axle trailer | | | 3 axle trailer | | |
|---|---|---|---|---|---|---|
| | Test | retest | average veh | Test | retest | average veh |
| 2010 | £57.00 | £27.00 | £61.04 | £68.00 | £36.00 | £73.39 |
| 2011 | £57.00 | £27.00 | £61.04 | £68.00 | £36.00 | £73.39 |

### O licence per licence fees

Volumes from 2010/11 Business Plan

| | | | | |
|---|---|---|---|---|
| Licences in issue | 91,950 | | Variations per year | 6,250 |
| New applications PA | 5,000 | | Continuations PA | 14,500 |

| | New App | Grant / Cont (5 years) | Variation | Average |
|---|---|---|---|---|
| 2010 | £250.00 | £391.00 | £250.00 | £108.79 |
| 2011 | £254.00 | £397.00 | £254.00 | £110.48 |
| Change | £4.00 | £6.00 | £4.00 | £1.69 |

# Part 2: Estimated impact on operating costs

### Total VOSA charges and changes per operating business

| | Operator business size | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Micro (1 x 7.5t rigid) | | Small (4 mixed MVs + artic | | Medium (10 mixed MVs + artic | | Large (250 mixed MVs + artic | |
| | Fee 2011 | Change from 2010 | Fee 2011 | Change from 2010 | Fee 2011 | Change from 2010 | Fee 2011 | Change from 2010 |
| **Average VOSA charges** | £211.42 | £1.69 | £689.16 | £1.69 | £1,552.08 | £1.69 | £38,568.68 | £1.69 |
| **% of cost** | 0.367% | 0.003% | 0.213% | 0.001% | 0.187% | 0.000% | 0.179% | 0.000% |