

<b>Title:</b> Funding the interconnection of the National Register of licensed operators of goods vehicles, buses and coaches <b>IA No:</b> DfT00164 <b>Lead department or agency:</b> Vehicle and Operator Services Agency of the Department for Transport (VOSA) <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 28/01/2014		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> EU		
	<b>Type of measure:</b> Secondary legislation		
<b>Contact for enquiries:</b> andrew.cattell@vosa.gsi.gov.uk			
<b>Summary: Intervention and Options</b>		<b>RPC:</b> RPC Opinion Status	

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, Two-Out? Measure qualifies as
£-0.78m	£-0.78m	£0.07m	No   NA

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

Operators of buses, coaches and goods vehicles (lorries) are licensed to ensure road safety and fair competition. To achieve consistency across Member States, rules on operator licensing are set in European Union (EU) regulations. One element in support of that process required the creation, sharing and use of a National Register (NR) of operators, their transport managers and serious offences. This has been completed and intervention at UK level has already taken place to create our NR. Further UK intervention is necessary to continue to provide the NR to facilitate the sharing of information across Member States as required by EU law.

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

The objective of the original EU intervention was 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 continued running of the NR supports this aim by providing standardised information to facilitate monitoring of operators and intervention by their home state where serious infringements are found. The specific objective dealt with in this IA is to fund the GB running costs of interconnection.

**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 interconnection of the NR requirement and would risk infraction proceedings.

Option 1: The preferred option is to fund the running cost of the interconnection of the NR by increasing fees for bus, coach and lorry operator's licences. This option spreads the cost over all licences.

<b>Will the policy be reviewed?</b> It will be reviewed. If applicable, set review date: 04/2015					
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.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> NQ		<b>Non-traded:</b> NQ

*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

..... Stephen Hammond ..... Date: 27/02/2014 .....

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Funding the interconnection of the National Register of licensed operators of goods vehicles, buses and coaches

## FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: -0.78

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	0.1	0.8

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

The running costs to Vehicle and Operator Services Agency (VOSA) arising from the interconnection of the NR are estimated at £100,000 per year. This covers the ongoing cost of software licensing, charges from ICT supplier to UK Government to meet international standards on data security and use of the data transmitted. The costs will also fund the additional work to provide detailed information about offences to enable intervention by national authorities; and the cost of such intervention in GB. These costs will be recovered from VOSA customers. This recovery is a transfer from customers to VOSA which does not represent an economic cost.

### 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	0	0.0	Estimated 0.0

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

Improved compliance/ safety of foreign registered commercial vehicles would be expected to lead to a reduction in the number of fatal accidents that this type of vehicle is involved in however, it has not been possible to determine what proportion of the overall benefits of the package can be attributed to the interconnection of the NRs which would be necessary to monetise the benefits of the interconnection.

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

Without the continued running of the NR, the benefits of the overall package that are explained in the IA of the overall package<sup>1</sup> could not be delivered. The key benefits of the package arise from more targeted and effective enforcement activity; improving safety and operational benefits to the commercial vehicle industry, and helping to create a more level playing field throughout the EU.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

1) Main risk is of infraction proceedings by the European Commission (EC) if the interconnection of the Register is not implemented. 2) The key assumption is the prediction of volumes of activity over which costs have to be spread. 3) Costs that are greater than planned 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 OITO?	Measure qualifies as
Costs: 0.1	Benefits: 0	Net: -0.1	No	NA

<sup>1</sup> IA on the EU Road Transport Package is at <http://www.dft.gov.uk/consultations/dft-2011-11>

# Evidence Base (for summary sheets)

## GENERAL ISSUES

### Overall context

1. The system of interconnection of NRs mandated by the European Commission (EC) is known as European Registers of Road Transport Undertakings (ERRU). The purpose of connecting NRs is to enable information to be exchanged rapidly and efficiently between Member States and to facilitate enforcement action by home Member States and deter operators from committing serious infringements when operating in Member States other than the Member State in which they are licensed.
2. Creation of the NR was funded by fee increases in April 2012, which were the subject of a separate IA<sup>2</sup> the final version of which was published in February 2012. That fee increase did not include the setup or ongoing running costs of interconnecting the NR and this IA therefore deals only with the ongoing costs of running and maintaining the interconnection to be funded from fees.
3. EU Regulations require the Interconnection of the NR by 31<sup>st</sup> December 2012 in such a way that a competent authority of any Member State is able to consult the NR. The EC has mandated the technical details of the interconnection.
4. These proposals for fee increases to fund the interconnection of the NR form part of VOSA's wider financial management strategy which is outlined more fully in the separate IA "VOSA Fees – General Increase"<sup>3</sup>; and its published Business Plans and Annual Reports<sup>4</sup>. VOSA's published Annual Report for 2011/12 shows that the trading fund carried forward a retained deficit of almost £25.5 million into 2011/12 which the Agency is required to recover. This leaves no margin to absorb the costs of additional services such as the interconnection of the NR. There is some degree of uncertainty as to the final costs however, any reduction in operating cost will reflect as a lower fee increase either when the final decision is taken on the proposals in this IA or in future fee changes.

### Analytical Assurance Statement

5. The analysis undertaken to assess the impact of this fee proposal uses well-established economic appraisal techniques. The analysis relies on appropriate sources of evidence (largely from VOSA) and the work was undertaken by experienced and skilled staff. Calculation checks were carried out by the peer reviewer. There is scope for challenge regarding the assumptions used but overall, considerable sensitivity testing was undertaken in those areas where it was necessary to reflect the residual levels of uncertainty surrounding the final figures
6. Extra resources have not been available to provide additional peer reviewing and challenge which may have increased the robustness and accuracy of the analysis. Overall, the assurance around the production of the analysis is 'low-medium'. Relevant industry data was used to make key assumptions, however a lack of access to other sources has meant we were unable to cross check this information. Nevertheless, this measure results only in benefits and as the assumptions regarding the magnitude of these benefits are generally conservative, further work would have likely only increased the overall benefits rather than change the key conclusions of the analysis.

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<sup>2</sup> <http://www.ialibrary.bis.gov.uk/ImpactAssessment/?IAID=a991e2bcda1a44f69b29beb8c459f9a3>

<sup>3</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/192849/annex-4-general-increase-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192849/annex-4-general-increase-ia.pdf)

<sup>4</sup> <http://www.dft.gov.uk/vosa/publications/corporatereports/corporatereports.htm>

## Background

7. The EU has introduced a package of measures (the Road Transport Package) to address issues of unfair competition, compliance and road safety. During 2011 VOSA created the NR as required by the EU Regulation containing specified details about licensed road transport operators, their transport managers and certain offences committed by them. The Road Transport Package was subject to a separate IA in 2011<sup>5</sup> by the Department for Transport (DfT) which assessed the impact of the overall package for which the interconnection discussed in this IA is an enabler.
8. The NR contains data on operators based in other parts of the UK (e.g. Northern Ireland). Administrations in those territories will be responsible for the cost of including their data in the register.

## Rationale for intervention

9. 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.
10. There is an existing reciprocal informal arrangement requiring notification of defects on foreign vehicles to the appropriate licensing authority although the response from some Member States is considered to have been disappointing and there is therefore scope for improving the effectiveness of exchange of information.
11. 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 was 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.
12. The objective of this intervention is to connect the UK National Register to other NRs throughout the Community in compliance with the Community rules and to facilitate the cooperation together with reducing costs involved in checks for both undertakings and administrations. The EU Regulation also requires the exchanged data, particularly on "most serious infringements", to be used to trigger interventions where operators appear to be failing to adhere to appropriate standards for safe and legal operation. Interconnection is expected to lead to more interventions because of a better flow of data on infringements when vehicles are operating outside their home Member State.

## Policy objective

13. The objective of the interconnection of the NR 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). The fee change itself will not affect operator behaviour. However, without the interconnection of the NR, the international benefits of the NR cannot be obtained.

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<sup>5</sup> <http://www.ialibrary.bis.gov.uk/ImpactAssessment/?IAID=e667f00b7012490b9b9d8ab1d819d412>

14. The objectives of the fee changes proposed in this IA are to fund the interconnection of the NR; and to ensure that VOSA covers the ongoing costs of running and maintaining that interconnection; and to ensure that VOSA covers the additional costs of follow up action required by EU regulations which is triggered by information passed via the interconnection which would not previously have been available.

## Options Considered

15. If Interconnection were not done the UK would be at risk of fines should the EC instigate infraction proceedings. There would also be a reputational 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 connect its NR with other Member States.

16. The following options have been considered:

- Fund the GB one-off and/or running costs of interconnection of the NR from taxation.
- Fund the GB one-off and/or running costs of interconnection of the NR from fees charged to those authorised (or applying to become authorised) to operate Heavy Goods Vehicles (HGVs); and buses and coaches (Public Service Vehicles – PSVs).
- Fund the GB one off and/or running costs of interconnection of the NR from fees charged by a reduction in other services.

17. The ongoing running costs of interconnection of the NR are not funded from taxation and DfT accepted that the levels of existing related services should not be reduced. Funding of the ongoing costs has, therefore, followed the existing policy of VOSA / DfT that the costs of VOSA's services are covered specifically by those fees unless the Agency's work falls outside the scope of its statutory services.

18. Therefore, the only policy option considered in this IA is funding the running costs of interconnection of the NR from fees and, in accordance with the approach decided upon following the consultation in 2010 and detailed in the IA on funding of the creation of the NR, that the cost should be spread across all operator licence fees.

## Costs and benefits of Option 1

### One In Two Out (OITO) and direct impact on small businesses

19. The interconnection of the NR is being created to comply with EU law and the fee increases proposed are to meet the cost of complying with that law with no "gold plating". As such, it is out of scope of OITO.

20. The majority of operator licences specify only a low number of vehicles (average of about 4 per licence for HGVs and 7 per licence for PSVs)<sup>6</sup>. However this does not necessarily indicate the size of the business – an operator with one HGV could be a micro business – equally it could be a much larger business which operates a number of vehicles below the HGV weight threshold but only one HGV; or a larger business which sub-contracts most of its transport but keeps one HGV for special purposes. VOSA does not hold the necessary information to identify the business size and its collection would create an additional burden on those businesses. The EU requirement for operator licensing and inclusion on the NR applies to all business sizes. The total fee burden on even the smallest business

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<sup>6</sup> <http://webarchive.nationalarchives.gov.uk/20130522140420/http://www.dft.gov.uk/vosa/corporatereports-2009-2010vosaeffectivenessreport.htm>

represents only a tiny proportion of the cost of operating a vehicle (0.38% for a single small HGV) and the changes proposed in this IA add less than about 0.002% to that cost. Taking all these factors together, it is considered inappropriate to exempt micro businesses from this small addition to a fee which they are already required to pay.

## Costs of Option 1

21. The ongoing cost of running and maintaining the interconnection of the NR and additional activity generated is estimated at £100,000 per year. This is to cover software licensing and charges from ICT suppliers to maintain the required links and comply with UK Government and international standards on data security. The costs also include additional staff time to comply with the new EU requirements such as considering whether to take action against licences in light of information on serious infringements whilst abroad.
22. These costs are identified in the table below:

<b>Ongoing running costs arising from interconnection</b>	
	Annual costs (£k)
System support	71.6
VOSA staff costs	7.3
Office of Traffic Commissioner staff costs	15.5
Software licensing costs	5.6
<b>Total</b>	<b>100.0</b>

23. The above costs are taken from the full business case for the project to deliver interconnection.
  - a. Under VOSA's current Information Technology and Communication (ITC) contract system support costs for additional functionality are a percentage of the cost of system changes to create that functionality. The costs used here are based on the business case cost of creating the additional functionality to interlink the National Registers. There is a fairly high level of certainty on this since the work to create the additional software is due to be completed around the end of 2013 and this is on track for delivery during January 2014.
  - b. The VOSA staff costs are based on estimates of the time taken to fulfil our obligation to provide and use information transmitted via the EU wide link. This is estimated at about 1170 hours per year. This is the most difficult figure to estimate as there is a significant degree of uncertainty as to both the volume of serious infringements expected and their significance in determining the future of operator licences when compared with information already available on infringements within GB. The estimate is based on a combination of extrapolation from data we receive via existing non-electronic channels and intelligence gathered from our sister enforcement agencies in other EU states. Any inaccuracies in these estimates will be reflected in the costs attributed to the operator licensing schemes used in future fees, which form part of the Agency's annual financial management cycle.
  - c. The software licensing costs cover the necessary licences for off the shelf software. They recur every third year but have been distributed equally over each of the three years. These charges are based on the current expectation of the structure of the licences involved. However the pace of change in off the shelf software market makes future licensing costs difficult to forecast – but again any inaccuracy will be reflected in future fee review calculations.

- d. Office of the Traffic Commissioner costs relate to extra staff and time to receive information direct from all Member States on Most Serious Infringements (MSI) committed by GB Operators within all other Member States. These will have to be processed through the Office of the Traffic Commissioners (TC) and the outcome reported back to the notifying Member State.
24. Existing policy is that VOSA running costs are recovered by increasing the fees paid for applying for and maintaining operator licences. This would apply to the running costs of the NR too. The fee increase is regarded as a payment transfer in that the fee is transferred from operators to VOSA. This represents a cost to the operator but a benefit to VOSA. Transfer payments may change the distribution of income and wealth but do not give rise to direct economic costs. The total fee income to support operator licensing is estimated as £10million per year, thus a 1% fee increase is needed to raise the additional £100,000.
25. Annex A illustrates the estimated impact on individual fees of this increase. The fees affected by this increase will also be affected by a proposed general fee increase (see separate IA<sup>7</sup>); and PSV test fees are also affected by proposed changes in differentials by location of test. The effect of these is also shown in the tables in Annex A. VOSA has a policy of rounding fees up to the next whole pound. However to prevent possible distortions of relativity between fees that compounding of rounding could create, calculations of fee changes start from the previous fee before it was rounded, apply the percentage adjustments from all causes and then round the final result. Thus the percentage change to individual fees will vary from the sum of the individual percentage changes.
26. Annex B illustrates the calculations used to estimate the effect of this change on overall fee burden on HGV operators and to relate that to their overall operating costs. The calculation 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 indicate that the overall burden of fees as a result of the changes in this and other IAs would increase annualised average costs by about £2.39 per operator in 2013/14. For the operator of a single HGV vehicle, the estimates suggest that the total effect of all proposed fee changes to the average annualised fees paid to VOSA, including vehicle test fees would add about 0.03% to the total operating costs if their vehicles were tested at VOSA test facilities and 0.002% if their vehicles were tested at non-VOSA facilities.
27. 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

28. The NRs and interconnection thereof 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 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 throughout the E U.
29. The monetised benefits of the Road Transport Package are summarised in its IA<sup>8</sup> as:  
*“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*

<sup>7</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/192849/annex-4-general-increase-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192849/annex-4-general-increase-ia.pdf)

<sup>8</sup> <http://www.ialibrary.bis.gov.uk/ImpactAssessment/?IAID=e667f00b7012490b9b9d8ab1d819d412>

*(10%, i.e., 3.5 fatalities) and, therefore, benefits are very similar.”* That IA puts the net benefit (NPV) for the package as £57.8m at 2011 prices over a ten year assessment period.

30. Benefits derived from the interconnection of the NRs are that interconnection ensures that we receive information about infringements by our operators in other member states. This enables VOSA to target other checks on these operators and provides information to Traffic Commissioners to enable them to consider the future of their licences. It also provides authorities in other Member States with information about infringements by their operators in the UK which the new EU Regulations require them to take into account in considering whether they still meet the conditions of the admission to the occupation.



## Other proposed changes in fees in 2013/14 not included in this IA

31. VOSA's proposed package of statutory fee changes included two other drivers for change. The impact of each of the other drivers is assessed in a separate IA. Table 1 below shows which fees are affected by the preferred option for each driver and the SIs which will need to be amended to implement the proposed changes.

**Table 1 - Proposed changes to fees for 2013/14 affecting costs to business**

Service area and Regulations to be amended to change fees	Driver for change		
	Location differentiation	Interconnection of National Registers	General increase
<b>VOSA fees in GB</b>			
HGV testing & notifiable alterations Goods Vehicles (Plating and Testing) Regulations 1988 (1988/1478)	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
PSV testing Motor Vehicles (Tests) Regulations 1981 (1981/1694)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Reduced Pollution Certificate (RPC) Road Vehicles (Registration and Licensing) Regulations 2002 (2002/2742)	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Low Emission Certificate (LEC) <i>No regulation amendment needed</i>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
ADR testing International Carriage of Dangerous Goods by Road (Fees) Regs 1988 (1988/370)	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
PSV initial certification (CoF) Public Service Vehicles (Conditions of Fitness, Equipment, Use and Certification) Regulations 1981 (1981/257)			<input checked="" type="checkbox"/>
PSV accessibility certification Public Service Vehicles Accessibility Regulations 2000 (2000/1970)			<input checked="" type="checkbox"/>
Individual Vehicle Approval (IVA) Road Vehicles (Individual Approval) (Fees) Regulations 2009 (2009/718)			<input checked="" type="checkbox"/>
Motorcycle Single Vehicle Approval (MSVA) Motor Cycles Etc (Single Vehicle Approval) (Fees) Regulations 2003 (2003/1960)			<input checked="" type="checkbox"/>
Vehicle Identity checking (VIC) Road Vehicles (Registration and Licensing) Regulations 2002 (2002/2742)			<input checked="" type="checkbox"/>
Tachograph fitter/repairer authorisation Passenger and Goods Vehicles (Recording Equipment) (Approval of Fitters and Workshops) (Fees) Regulations 1986 (1986/2128)			<input checked="" type="checkbox"/>
HGV operator licence fees Goods Vehicles (Licensing of Operators) (Fees) Regs 1995 (1995/3000)		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
PSV operator licence fees Public Service Vehicles (Operators' Licences) (Fees) Regs 1995		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Bus service registration Public Service Vehicles (Registration of Local Services) Regulations 1986 (1986/1671) AND Public Service Vehicles (Registration of Local Services) (Scotland) Regulations 2001 (SSI 2001/219)			<input checked="" type="checkbox"/>
International permits for HGVs Goods Vehicles (Authorisation of International Journeys) (Fees) Regulations 2001 (2001/3606)			<input checked="" type="checkbox"/>
<b>DVA fees in Northern Ireland</b>			
Reduced Pollution Certificate (RPC) Road Vehicles (Registration and Licensing) Regulations 2002 (2002/2742)	No changes proposed to NI RPC fees		
Individual Vehicle Approval (IVA) Road Vehicles (Individual Approval) (Fees) Regulations 2009 (2009/718)			<input checked="" type="checkbox"/>
Vehicle Identity checking VIC Road Vehicles (Registration and Licensing) Regulations 2002 (2002/2742)			<input checked="" type="checkbox"/>

- Interconnection of NRs is the subject of this I A.
  - Location differentiation widens differentials between tests conducted at VOSA provided test facilities and those at non-VOSA test facilities to achieve fairer distribution of costs and is explained in a separate IA<sup>9</sup>
  - The general increase is a fee increase to cover rises in VOSA's costs which cannot be met by efficiency gains alone and is explained in a separate IA<sup>10</sup>
32. The fee tables at Annex A show the fees affected by this IA, and of the general increase IA on those fees.

## Risks

33. The main risk associated with this proposal is in respect of the accuracy of predictions of costs and demand volumes. Particularly in times of economic uncertainty assumptions made over a year before the proposed changes are to be introduced and more than 2 years before the next realistic opportunity to change fees are likely to be less accurate than in less turbulent times.
34. The second risk is the potential for infraction proceedings by the European Commission (EC) if the interconnection of the Register is not implemented.

## Assumptions

35. Key assumptions are on:
- VOSA's overall financial position at the end of 2012/13 (from a combination of unpredicted changes in levels of demand or costs which creates uncertainty on the level of overhead which has to be attributed to each service area)
  - At the time of writing the initial impact assessment the recent unprecedented economic position has led VOSA to assume a cautious to pessimistic approach with this assumption built in to VOSA costs. Currently, the level of services provided by VOSA remains fairly constant therefore this assumption has not materialised and so has not had an effect upon VOSA costs.
  - changes to VOSA's costs and the extent to which these can be absorbed by efficiency improvements (affected by pressures on pay (following 4 years of freeze and 2 years of imposed constraint), costs of bought-in services as a result of market forces and the need to re-let VOSA's Information Technology and Communications (ITC) contract within the appraisal period which creates uncertainty on the level of direct costs to be attributed to each service areas)
  - VOSA have managed to absorb a number of inflationary costs however, following further review of the stable position of pay freezes and reductions in overheads such as travel costs and the re-let of VOSA ITC that occurs in 2015, means no further changes to this impact assessment in relation to costs and benefits.
  - the level of demand for services in 2013/14 (affected by general levels of demand for transport and changes in the structure of the road transport industry which we regulate creates uncertainty on the percentage change to individual fees needed to generate the target income change)
  - Inevitably, the level of demand for VOSA services fluctuates throughout the year and from year to year. Historically VOSA data shown in its Effectiveness Reports published each year and available on line will show the general level of demand for our services and there is some degree of uncertainty in relation to our target income. Further review of data in this final impact assessment (VOSA Effectiveness Report 2013) shows a trend for a reduction in our

<sup>9</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/192847/annex-2-location-differentiation-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192847/annex-2-location-differentiation-ia.pdf)

<sup>10</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/192849/annex-4-general-increase-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192849/annex-4-general-increase-ia.pdf)

services that will mean we have to give consideration to fees and charges in the review period following implementation of this proposal. We expect this to be undertaken during 2014.

- the levels and complexity of detected infringement (affected by the levels of non-compliance in the road transport industries, the resource put into detecting infringements throughout the EU and the effectiveness of targeting of those activities creates uncertainty on the number of infringements which require consideration plus the time taken to investigate/assess each infringement).
- We have assumed that the level of complexity for infringement detection remains constant within this impact assessment and currently we do not expect this level to change. Should the continuing interconnection of the national register suggest levels of infringement activities that require additional resource we will give consideration fees and charges in the review period following implementation of this proposal. We expect this to be undertaken during 2014.

It has also been assumed that:

- because of the potential inaccuracies in estimation of costs discussed in paragraph 21 and because any inaccuracies in these predictions will be taken into account in preparing fee change proposals for 2015 and beyond. From information available when those fee changes are planned we have not attempted to account for cost inflation over the appraisal period.

### **Direct costs and benefits to business**

36. As mentioned earlier the majority of customers for VOSA's services covered by this IA are businesses. Some civil society organisations may also be part of the customer base. All income for services covered by this IA has therefore been treated as coming from businesses and civil society organisations.
37. In every case, the cost of fees paid to VOSA forms only a tiny part of the cost of owning or operating vehicles. Annex B shows the relationship between fees paid to VOSA and typical operating costs for businesses of various sizes operating HGVs. The analysis estimates that the overall effect of the proposed increases ranges from costs reductions estimated at 0.003% of operating costs to increases of about 0.031%. The most significant factor on where within this range a particular operator falls is where they take their vehicles for test. It also looks at this relationship for the HGV rental and leasing industry as a whole. This analysis estimates that the overall effect of the complete proposed increases in Location Differentiation; General Increase and Interconnection of the NR<sup>11</sup> ranges from costs reductions estimated at 0.008% of operating costs to increases of about 0.092%. The data used to estimate this effect comes from the 2012 edition of Cost Tables published by the Road Haulage Association and from statistics published in Transport Statistics GB.
38. Similar analyses for other services have not been possible because public domain data on typical ownership and operating costs is unavailable.

## **Consultation results**

39. A formal consultation on the proposed changes covered by this and the two related IAs mentioned under "References" was conducted between 30 April and 11 June 2013 (6 weeks – with most responding on-line). One question related to the contents of this IA. Overall there were 45 responses in total.
  - The majority (58%) of respondents did not favour this proposal. However, the reasons given varied considerably.

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<sup>11</sup> The overall effect upon business for each element of the increases is tiny, therefore the cost reduction and operating costs data for all three elements of change have been included in this calculation

- Some respondents questioned where the costs associated with interconnection arose from. Some confusion was evident between the funding streams for operator licensing and VOSA's activities to encourage and enforce safe and legal operation of HGVs and PSVs, leading one respondent to suggest that these fees should be increased in line with inflation (i.e. by more than proposed) to fund better targeting technology.
- One trade association considered that the running costs, as well as the set-up costs should be funded from general taxation.
- Several suggested that these costs should be met by internal efficiencies.
- One respondent considered that the new processes were only relevant to non-UK operators and should therefore not be charged to operators whose vehicles did not leave the country.

## Consideration

- VOSA has already made considerable efficiency savings in recent years. The predicted costs used to determine the income needed takes account of continuing efficiency savings by continuous improvement of working methods. Thus if VOSA were to try to absorb this additional cost, service delivery would suffer, leading to slower turnaround times for licensing transactions that would further raise VOSA costs.
- Operator licence fees cover the costs of the operator licensing system – primarily central licensing administration and the cost of the independent Traffic Commissioners and their support. The “enforcement” element of test fees covers the cost of activities by VOSA staff to encourage and enforce safe and legal operation of HGVs and PSVs, whether at roadside checks, operators premises or other activities to make those using and providing vehicles aware of the standards expected and target those at greatest risk of failing to meet those standards.
- Interconnection and the activity flowing from it is an integral part of operator licensing administration.
- As explained in the consultation document and associated IAs, the costs associated with interconnection cover the ongoing running costs of the IT systems needed to exchange data and the cost of additional reviews of the licences of British operators committing serious infringements when abroad as well as providing other Member States with information about infringements by their operators in GB. The additional information on British operators is expected to highlight operators whose inadequacies may not have been recognised using data on their performance in GB alone.
- Updating technology used to support better targeting and enforcement technology identified in the second bullet above, is part of the “enforcement” activities and is already in VOSA's spending plans. Whilst VOSA could always use extra money to update these technologies more often than already planned, it considers current spending plans are adequate and that keeping fee levels as low as possible to foster growth is appropriate at this time.
- DfT have listened to comments made at the last fee change consultation and are funding the one-off costs of complying with the additional EU requirements from general taxation. They considered it inappropriate to fund ongoing costs in the longer term from general taxation.
- All operators benefit from the new EU requirements which aim to promote equal treatment of operators throughout the EU reducing unfair competition from illegal operation to all sectors of the industry not just those who operate abroad.

40. Consultees were asked for any information which could be used to improve the accuracy of the IA. No such information relating to this IA was forthcoming.
41. Having considered the consultation response Ministers continue to favour implementing Policy Option 1 - Funding the interconnection of the National Register of licensed operators of goods vehicles, buses and coaches. A full report on the consultation will be published when the fee changes are implemented.

#### **42. OITO, Small and Micro-business Assessment**

43. The proposals alter the amount of fees but do not change the level of regulation and as such are out of scope of OITO.
44. As these measures are planned to come into effect after 31 March 2014 we have considered the regulatory proposal in relation to small and micro business assessment. Regulations impose minimum road safety requirements and therefore licensing places a statutory obligation on the user to ensure compliance with minimum regulatory obligations. Licensing fees paid reflect the cost of services provided and consequently this area of business is not exempt and we believe that no mitigating options are necessary because there is no disproportionate burden.
45. Annex B shows the result of calculations and therefore a quantitative assessment of the effect of changes to HGV fees as a result of the **overall effect of the entire fee changes proposed for 2013/14** on the total amount paid in fees to VOSA and on the overall operating costs for typical HGV micro business. As we described in Paragraph 37, by far the most significant part of the change is the increased differentiation by test location which is the subject of a separate IA.
46. The fee changes proposed in this IA are small; the total fee bill for all customers is only a tiny proportion of the cost of operating or owning vehicles; and all customers are treated equally, they are unlikely to have any impact on:
- Economic or financial issues other than those specifically identified in this IA or
  - Social issues

#### **Environmental issues**

47. The changes proposed by this impact assessment will affect operating costs and these will rise by a small amount, but this should be taken in the context of the overall effect of the three changes proposed. (General Increase; Interconnection of the National Register and Location Differential)
48. Any change in CO<sub>2</sub> would be determined by businesses reaction to the increase in fees and spread across a variety of factors including; distance travelled laden or unladen; fuel efficiency and weight of goods carried. The proposed charge for the running costs of the interconnection of the national register will not in itself change these factors and therefore as such the effect upon change in CO<sub>2</sub> would not be quantifiable.

#### **Post Implementation Review (PIR) plan**

##### **Basis of the review**

Annual review of VOSA fees

##### **Review objective**

The annual review of VOSA fees ensures that fees and transaction volumes are meeting current transaction costs

##### **Review approach and rationale**

Monitoring data is reviewed to ensure that long term costs and income are matched

##### **Baseline**

Annual review as part of the Agency accounting process

**Success criteria**

Long term balance of fees and transaction costs

**Monitoring information arrangements**

VOSA's annual business plan and accounts will provide the required data

**Reasons for not planning a review**

N/A A review will be planned

**Consultation IA RPC12-DfT-1444(2) RPC view:**

This consultation overall assessment was Green and therefore the IA is fit for purpose. The issues raised in our previous opinion (18/07/12) have been addressed

This Annex shows result of calculations of the effect of changes to test fees as a result of the **overall effect of the entire fee changes proposed for 2013/14**<sup>12</sup> paid to VOSA where tests are conducted at VOSA or non VOSA facilities. By far the most significant part of the change is the increased differentiation by test location which is not the subject of this IA. The overall package proposed includes a 1% increase in operator licence fees to fund the interconnection of NRs and a general increase of 1% for inflation, each of which is considered in a separate IA. Part 1 shows the fees affected by all three changes.

Part 2 shows the fees affected on two changes – NR Interconnection and General Increase.

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

The following tables show present and proposed fees for services affected by this IA.

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<sup>12</sup> The overall effect upon business for each element of the increases is small, therefore the cost reduction and operating costs data for all three elements of change have been included in these calculations

Part 1 – Fees affected by this IA which are also affected by location differentiation and general increase

**PSV Test Fees under the Motor Vehicles (Tests) Regulations 1981 (SI 1981/1694)**

		Current Fees					Proposed fee					Overall % change		
		Enforcement element	O licence element	Testing element	Rounded total fee	Enforcement	O licence interconnection	Testing element	New fee rounded total fee	Overall % change				
Fee Description	Enforcement element	O licence element	Testing element	Rounded total fee	Enforcement	O licence interconnection	Testing element	New fee rounded total fee	Overall % change	Enforcement	O licence interconnection	Testing element	New fee rounded total fee	Overall % change
<b>Test &amp; full retest</b>	23 + passengers at VOSA	£39.60	£3.25	£96.08	<b>£139</b>	£0.40	£40.00	£0.03	£3.32	£23.25	£1.19	£120.52	<b>£164</b>	18.0%
	23 + passengers at non-VOSA	£39.60	£3.25	£88.69	<b>£132</b>	£0.40	£40.00	£0.03	£3.32	£3.90	£0.85	£85.63	<b>£129</b>	-2.3%
<b>Retest PAID (partial up to 14 days)</b>	OoH sup 23+ passengers at VOSA	£0.00	£0.00	£52.32	<b>£52</b>	£0.00	£0.00	£0.00	£0.00	£0.00	£0.52	£52.84	<b>£53</b>	1.9%
	9 - 22 passengers at VOSA	£39.60	£3.25	£67.48	<b>£111</b>	£0.40	£40.00	£0.03	£3.32	£16.33	£0.84	£84.65	<b>£128</b>	15.3%
<b>Retest PART PAID (minor items)</b>	9 - 22 passengers at non-VOSA	£39.60	£3.25	£62.29	<b>£106</b>	£0.40	£40.00	£0.03	£3.32	£2.74	£0.60	£60.15	<b>£104</b>	-1.9%
	OoH sup 9 - 22 passengers at VOSA	£0.00	£0.00	£38.15	<b>£38</b>	£0.00	£0.00	£0.00	£0.00	£0.00	£0.38	£38.53	<b>£39</b>	2.6%
<b>Retest PART PAID (minor items)</b>	23 + passengers at VOSA	£0.00	£0.00	£62.91	<b>£63</b>	£0.00	£0.00	£0.00	£0.00	£15.22	£0.78	£78.91	<b>£79</b>	25.4%
	23 + passengers at non-VOSA	£0.00	£0.00	£58.07	<b>£59</b>	£0.00	£0.00	£0.00	£0.00	£2.56	£0.56	£56.07	<b>£57</b>	-3.4%
<b>Retest PART PAID (minor items)</b>	OoH sup 23+ passengers at VOSA	£0.00	£0.00	£25.07	<b>£25</b>	£0.00	£0.00	£0.00	£0.00	£0.00	£0.25	£25.32	<b>£26</b>	4.0%
	9 - 22 passengers at VOSA	£0.00	£0.00	£43.46	<b>£44</b>	£0.00	£0.00	£0.00	£0.00	£10.52	£0.54	£54.52	<b>£55</b>	25.0%
<b>Retest PART PAID (minor items)</b>	9 - 22 passengers at non-VOSA	£0.00	£0.00	£40.12	<b>£41</b>	£0.00	£0.00	£0.00	£0.00	£1.77	£0.38	£38.74	<b>£39</b>	-4.9%
	OoH sup 9 - 22 passengers at VOSA	£0.00	£0.00	£18.53	<b>£19</b>	£0.00	£0.00	£0.00	£0.00	£0.00	£0.19	£18.72	<b>£19</b>	0.0%
<b>Retest PART PAID (minor items)</b>	All	£0.00	£0.00	£12.10	<b>£12</b>	£0.00	£0.00	£0.00	£0.00	£0.00	£0.12	£12.22	<b>£13</b>	8.3%



Part 2 – Fees affected by this IA which are also affected general increase

These fees are affected by National Register interconnection and general increase

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

Fee Description	Current Fees		Proposed (2013/14) Fees			Overall % change
	2012 Fee Unrounded	2012 Fee Rounded	NR interconnection increase	General Increase	2013 fee (rounded)	
Application	£253.90	<b>£254</b>	£2.54	£2.56	<b>£259</b>	2.0%
Variation	£253.90	<b>£254</b>	£2.54	£2.56	<b>£259</b>	2.0%
Grant of Licence	£396.85	<b>£397</b>	£3.97	£4.01	<b>£405</b>	2.0%
Continuation of Licence	£396.85	<b>£397</b>	£3.97	£4.01	<b>£405</b>	2.0%
Interim Licence issue	£67.21	<b>£68</b>	£0.67	£0.68	<b>£69</b>	0.8%

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

Fee Description	Current Fees		Proposed (2013/14) Fees			Overall % change
	2012 Fee Unrounded	2012 Fee Rounded	NR interconnection increase	General Increase	2013 fee (rounded)	
Application - Standard or Restricted licence	£205.96	<b>£206</b>	£2.06	£2.08	<b>£211</b>	2.4%
Variation application - all	£120.55	<b>£121</b>	£1.21	£1.22	<b>£123</b>	1.7%
Application - special licence	£60.90	<b>£61</b>	£0.00	£0.61	<b>£62</b>	1.6%
Continuation - special licence	£60.90	<b>£61</b>	£0.00	£0.61	<b>£62</b>	1.6%

This Annex shows the data used and the result of calculations of the effect of changes to HGV fees as a result of the overall effect of the fee changes proposed for 2013/14 on the total amount paid in fees to VOSA and on the overall operating costs for typical HGV operating businesses of various sizes. By far the most significant part of the change is the increased differentiation by test location which is NOT the subject of this IA. The overall package proposed includes a 1% increase in operator licence fees to fund the interconnection of NR and a general increase of 1%, each of which is considered in a separate IA.

Part 1 shows the source data. Vehicle operating costs are taken from Road Haulage Association Cost tables 2012 based on their Annual Survey on the Movement of Prices for the year to 30 September 2011 – they represent “real costs from a large range and sample of road transport companies”. 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. 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 IA.

## PART 1 SOURCE DATA

### Vehicle Operating Costs

Source: RHA "Cost tables 2012".	Total Operating Costs				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	Fixed costs	Mileage costs	Miles PA	Total PA	Type	Fixed costs p/a	Mileage costs per mile	Miles p/a	Total p/a
	£	p	Miles	£		£	p	Miles	£
7.5t 2 axle rigid	£44,265	43.1	45,000	£63,660	7.5t 2 axle rigid	£11,715	10.7	45,000	£16,530
13t 2 axle rigid	£49,650	49.7	45,000	£72,015	13t 2 axle rigid	£12,850	12.7	45,000	£18,565
18t 2 axle rigid	£56,150	55.6	50,000	£83,950	18t 2 axle rigid	£15,050	14.2	50,000	£22,150
26t 3 axle rigid	£64,450	72.8	50,000	£100,850	26t 3 axle rigid	£19,900	18.3	50,000	£29,050
32t 4 axle rigid tipper	£70,020	84.7	50,000	£112,370	32t 4 axle rigid tipper	£23,850	23.0	50,000	£35,350
32 - 33t 2 + 2 axle artic	£69,117	74.6	60,000	£113,877	32 - 33t 2 axle tractor	£15,800	10.7	60,000	£22,220
38t 2 + 3 axle artic	£77,228	79.0	70,000	£132,528	38t 2 axle tractor	£18,000	11.3	70,000	£25,910
44t 3 + 3 axle artic	£84,758	85.1	70,000	£144,328	44t 3 axle tractor	£21,850	12.9	70,000	£30,880
					3 Axle curtain trailer	£2,670	5.6	35,000	£4,630

### Rental & Leasing Industry Fleet size

Proportion of commercial vehicle rental and leasing fleet provided by BVRLA members (source BVRLA website)		65%	
Fleet size	BVRLA members		Total fleet
	Motor vehicles	109,949	169,152
	Trailers	19,297	29,688

**O licence per licence fees Planned 2013/14**

Licences in issue 84,038  
 New applications PA 5,709

Volumes from VOSA O Licence Team 2012  
 Variations per year 7,565  
 Continuations PA 14,350

	New App	Grant / Cont (5 years)	Variation	Average
2012	£254.00	£397.00	£254.00	£119.52
2013	£259.00	£405.00	£259.00	£121.91
Change	£5.00	£8.00	£5.00	£2.39

**Test fees by vehicle type**

Trailer ratio

2.16

Motor vehicles  
 Artic tractors  
 Trailers

Final failure rates (from VOSA data warehouse)  
 14.2% Trailers 13.8%  
 105,300 From Transport Statistics GB, 2011 edition (table 9.6 specially reproduced)  
 227,100 From Transport Statistics GB, 2011 edition (table 09.12, 2011)

**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
2012	£98.00	£40.00	£103.70	£123.00	£56.00	£130.97	£150.00	£73.00	£160.40
2013	£113.00	£50.00	£120.12	£145.00	£70.00	£154.97	£179.00	£92.00	£192.10
Op cost Change	£15.00	£10.00	£16.42	£22.00	£14.00	£23.99	£29.00	£19.00	£31.71
Trailer	2 axle trailer			3 axle trailer					
	Test	retest	average veh	Test	retest	average veh			
2012	£59.00	£28.00	£62.86	£71.00	£37.00	£76.10			
2013	£71.00	£35.00	£75.83	£85.00	£47.00	£91.48			
Op cost Change	£12.00	£7.00	£12.97	£14.00	£10.00	£15.38			

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

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
2012	£93.00	£37.00	£98.27	£117.00	£52.00	£124.40	£141.00	£68.00	£150.68
2013	£92.00	£36.00	£97.13	£115.00	£50.00	£122.12	£138.00	£65.00	£147.26
Op cost Change	-£1.00	-£1.00	-£1.14	-£2.00	-£2.00	-£2.28	-£3.00	-£3.00	-£3.43
Trailer	2 axle trailer			3 axle trailer					
	Test	retest	average veh	Test	retest	average veh			
2012	£56.00	£26.00	£59.59	£67.00	£35.00	£71.83			
2013	£55.00	£25.00	£58.45	£65.00	£33.00	£69.55			
Op cost Change	-£1.00	-£1.00	-£1.14	-£2.00	-£2.00	-£2.28			

## PART 2 – EFFECT ON BUSINESSES

**VOSA charges and proposed changes in charges as a proportion of operator business**

	Operator business size (assuming all vehicles specified on licence)							
	Micro (one 7.5t rigid)		Small (4 mixed MVs + proportion of trailers - average per licence)		Medium (10 mixed MVs + proportion of trailers)		Large (250 mixed MVs + proportion of trailers)	
	VOSA Charges 2013	Change from 2012	VOSA Charges 2013	Change from 2012	VOSA Charges 2013	Change from 2012	VOSA Charges 2013	Change from 2012
<b>Tests at VOSA</b>	£242.03	£18.81	£834.53	£108.82	£1,894.23	£270.96	£47,450.13	£7,215.57
	0.380%	0.030%	0.235%	0.031%	0.208%	0.030%	0.199%	0.030%
<b>Tests at ATF/DP</b>	£219.04	£1.25	£685.41	-£8.23	£1,518.28	-£24.56	£37,362.68	-£733.45
	0.344%	0.002%	0.193%	-0.002%	0.166%	-0.003%	0.156%	-0.003%

**VOSA charges and proposed changes in charges as a proportion of rental and leasing industry costs**

		VOSA Charges 2013	Change from 2012
<b>Tests at VOSA</b>	Total fee costs (£m)	£25,826,102	£3,836,815
	% of total costs	0.622%	0.092%
<b>Tests at ATF/DP</b>	Total fee costs (£m)	£20,477,973	-£351,409
	% of total costs	0.493%	-0.008%