

Title: Lorry, bus and coach examination fees - location differentiation IA No: DfT00163 Lead department or agency: Vehicle and Operator Services Agency (VOSA) Other departments or agencies: Driver and Vehicle Agency of the Northern Ireland Department of the Environment - DVA	Impact Assessment (IA)		
	Date: 28/01/2014		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Secondary legislation		
Contact for enquiries: Andrew.Cattell@vosa.gsi.gov.uk			

Summary: Intervention and Options	RPC: RPC Opinion Status
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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	-£19.92m	£1.81m	No NA

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

The Vehicle and Operator Services Agency (VOSA) carries out roadworthiness testing and other examinations of lorries (HGVs) and buses and coaches (PSVs) mandated by international agreements to improve road safety. Examinations take place in VOSA facilities or in mainly private sector, providers. Fees charged by VOSA do not fully reflect the differences in the costs for the different location types, and customers who choose non-VOSA facilities still contribute to the cost of VOSA facilities. VOSA need to reduce the fees for customers using non-VOSA facilities to reflect better the costs they incur and increase the fees for customers using VOSA facilities to recover the costs of service delivery.

What are the policy objectives and the intended effects?

The policy objectives of the proposed fee changes are to ensure that VOSA's costs are recovered whilst maintaining adequate service levels to meet customer demands and attributing costs more fairly between users of different service delivery methods.

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

Fees can only be changed in Regulations. Two options have been assessed in this IA. These options have been compared to the "do nothing" option (i.e. continue to charge present fees and fail to cover costs).

a) Option 1: full location cost differentiation now – i.e. charge the full cost of each service delivery method to customers who choose that method. b) Option 2: limit the rate at which fees for tests at VOSA facilities increase - effectively phase the change to full differentiation over a longer period prolonging the cross subsidy.

Option 1 is preferred. It creates a fairer fee structure; even with the proposed increases, most types of HGV roadworthiness tests are estimated to cost less at VOSA facilities than at non-VOSA facilities (when typical charges for using non-VOSA facilities are accounted for); and both options are estimated to have the same overall net cost to business.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 2015					
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
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: NQ		Non-traded: NQ	

I have read the Impact Assessment and I am satisfied that (a) it represents a 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: Full location cost differentiation now

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: NQ	High: NQ	Best Estimate: £0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	NQ	NQ	NQ
High	NQ	NQ	NQ
Best Estimate	£0	£5.5m	£47.5m

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

1.) Fees paid by users of VOSA test facilities are estimated to increase by around 24.2% for HGV & PSV roadworthiness tests and around 23.7% for ADR tests – an estimated cost to business of around £3.9m per year on average in real terms. 2.) Fees payable to VOSA by users of non-VOSA test facilities are estimated to decrease by around 4.4% for HGV & PSV roadworthiness tests and around 23.7% for ADR tests – an estimated cost to VOSA of around £1.6m per year on average in real terms.

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

Transfers between VOSA and customers from changes to fees for Reduced Pollution Certificates; Low Emission Certificates; and notifiable alteration examinations have not been monetised because these make up only a very small proportion of VOSA fees (less than 3%) and so the analysis would be disproportionate.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	NQ	NQ	NQ
High	NQ	NQ	NQ
Best Estimate	£0	£5.5m	£47.5m

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

1.) Fees paid by users of non-VOSA test facilities are estimated to decrease by around 4.4% for HGV & PSV roadworthiness tests and around 23.7% for ADR tests - an estimated benefit to business of around £1.6m per year in on average real terms. 2.) Fees payable to VOSA by users of VOSA test facilities are estimated to increase by around 24.2% for HGV & PSV roadworthiness tests and around 23.7% for ADR tests – an estimated benefit to VOSA of around £3.9m per year on average in real terms.

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

Transfers between VOSA and customers from changes to fees for Reduced Pollution Certificates; Low Emission Certificates; and notifiable alteration examinations have not been monetised because these make up only a very small proportion of VOSA fees (less than 3%) and so the analysis would be disproportionate.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

Due to the limitations of the available evidence base, it has been necessary to make a number of assumptions in this IA. The estimates presented in this IA are sensitive to both the data sources used and the assumptions made, and are therefore subject to uncertainty. A range of sensitivity analysis has therefore been undertaken. For example, it is assumed that 70% of the around 850,000 roadworthiness tests per year will be at non-VOSA facilities during the appraisal period but this is uncertain. Sensitivity analysis shows that (for example) it is estimated that each 5 percentage point variation upwards in the proportion of tests at non-VOSA facilities would decrease both the costs to business and VOSA income by about £1m per year in nominal terms.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £3.1m	Benefits: £1.3m	Net: -£1.8m	No	NA

Summary: Analysis & Evidence

Policy Option 2

Description: Limit the rate at which test fees at VOSA facilities increase by phasing the change

FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: NQ	High: NQ	Best Estimate: £0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	NQ	NQ	NQ
High	NQ	NQ	NQ
Best Estimate	£0	£2.4m	£21.0m

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

1.) Fees paid by users of VOSA facilities are estimated to increase by around 14.7% for both roadworthiness and ADR tests – an estimated cost to business of around £2.4m per year on average in real terms. 2.) Fees payable to VOSA by users of non-VOSA facilities are estimated to be unchanged for roadworthiness tests and to decrease by around 14.7% for ADR tests – an estimated cost to VOSA of around £0.1m per year on average in real terms.

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

Transfers between VOSA and customers from changes to fees for Reduced Pollution Certificates; Low Emission Certificates; and notifiable alteration examinations have not been monetised because these make up only a very small proportion of VOSA fees (less than 3%) and so the analysis would be disproportionate.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	NQ	NQ	NQ
High	NQ	NQ	NQ
Best Estimate	£0	£2.4m	£21.0m

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

1.) Fees paid by non-VOSA test facility users are estimated to be unchanged for roadworthiness tests and to decrease by around 14.7% for ADR tests - an estimated benefit to business of around £0.1m per year on average in real terms. 2.) Fees payable to VOSA by VOSA test facility users are estimated to increase by around 14.7% for both roadworthiness and ADR tests – an estimated benefit to VOSA of around £2.4m per year on average in real terms.

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

Transfers between VOSA and customers from changes to fees for Reduced Pollution Certificates; Low Emission Certificates; and notifiable alteration examinations have not been monetised because these make up only a very small proportion of VOSA fees (less than 3%) and so the analysis would be disproportionate.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

1.) Option 2 is purely an illustrative scenario that has been developed for comparison purposes. In practice, there is a wide range of levels at which the increase in test fees at VOSA facilities could be limited. 2.) Due to the limitations of the available evidence base, it has been necessary to make a number of assumptions in this IA. The estimates presented in this IA are sensitive to both the data sources used and the assumptions made, and are therefore subject to uncertainty.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £1.9m	Benefits: £0.0m	Net: £-1.8m	No	NA

Evidence Base (for summary sheets)

References.

No. Legislation or publication

- 1 For reference in this IA we have used the Consultation stage IA on “Funding the interconnection of National Registers of licensed operators of goods vehicles, buses and coaches”:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192848/annex-3-national-register-interconnection-ia.pdf
- 2 For reference in this IA we have used the Consultation stage IA on “VOSA fees – General Increase”:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192849/annex-4-general-increase-ia.pdf
- 3 VOSA corporate reports:
<http://www.dft.gov.uk/vosa/publications/corporatereports/corporatereports.htm>
- 4 Ministerial statement to Parliament about the future of testing services provided by the Vehicle and Operator Services Agency – J Fitzpatrick, 3 July 2008
<http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080703/wmstext/80703m0002.htm#08070362000020>
- 5 Managing Public Money at http://www.hm-treasury.gov.uk/psr_mpm_index.htm

GENERAL ISSUES

Scope of this IA

1. This Impact Assessment (IA) monetises the impacts of the proposed changes to fees for the following services:
 - For lorries (including their trailers) (Heavy Goods Vehicles – HGVs):
 - roadworthiness testing; and
 - certification of vehicles for carriage of dangerous goods (ADR¹ certification).
 - For buses and coaches (Public Service Vehicles – PSVs):
 - roadworthiness testing.

The Statutory Instruments which will need to be amended to implement changes to fees for these services are explained in Annex A. Annex A also gives an overview of the current fee structure within each service area. It is anticipated that the proposals in this IA will be introduced 6 April 2014 and as a result of the protracted legislative process that the fees will remain unchanged until about April 2015.

While the impacts of the proposed changes to fees for Reduced Pollution Certificates; Low Emission Certificates; and notifiable alteration examinations have not been monetised in this IA because these make up only a very small proportion of VOSA fees (less than 3%²) and so the analysis would be disproportionate, these fees will be subject to the changes proposed in the IA.

Therefore, it should be noted that the estimates of the costs and benefits of the proposed fee changes presented in this IA do not take account of the impacts of the proposed changes to fees for:

- Reduced Pollution Certificates (RPCs) – to enable lower rates of vehicle taxation;
 - Low Emission Certificates (LECs) – to enable free entry to the London Low Emission Zone; and
 - Notifiable Alterations.
2. This IA deals only with proposed changes in respect of the differentiation of fees by test location. Fees for roadworthiness tests may also be affected by small increases to contribute to the funding of the interconnection of National Registers of operators and their transport managers needed to meet EU Regulations is dealt with in a separate IA^(ref 1). The fees included in this IA are also affected by a proposed general uplift in fees covered by a separate IA^(ref 2). When calculating the combined effect of all these measures, the changes proposed in this IA will be applied before the general uplift in fees. The resulting fee is then rounded to the next whole pound. This is to avoid some fees being rounded upwards to the nearest pound and then rounded again thereby distorting relativities between individual fees, calculations of changed fees are based on the unrounded elements in the previous fees. This means that percentage changes to the fees actually charged will differ from those used to calculate the fees. Annex A discusses those other changes and the fee tables at Annex B show the combined effect of all changes on fees affected by this IA.
 3. The IA presents our best estimates of the costs and benefits of implementing this policy. A range of sensitivity analysis has also been undertaken. However, high and low estimates of the costs and benefits have not been produced as it is considered that further analysis would be disproportionate given that the policy will be reviewed in around 12 months time and these fees will be revised again if there is any significant discrepancy from the assumptions made in this impact assessment.

¹ ADR is an international agreement for the carriage of dangerous goods which includes vehicle requirements over and above normal roadworthiness standards for some cargos. Vehicles carrying such dangerous goods within the UK and abroad are required to comply with ADR. A roadworthiness test must be carried out at the same time as an ADR test. A normal roadworthiness test fee is charged – the ADR test fee covers the additional checks needed.

² Source - VOSA SchemeAccountsModelSummarisation_v05 - P14.xls

Geographic Coverage

4. The fees covered by this IA apply only in GB (i.e. England, Scotland and Wales).

Background

5. 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). The majority of these services are demand led.
6. The proposals for fee changes have been prepared taking account of the principles on setting fees set out in the treasury document *Managing Public Money*³ and form part of VOSA's wider financial management strategy which is outlined more fully in the separate IA "VOSA Fees – General Increase"^(ref 2) and its published Business Plans and Annual Reports^(Ref 3). The proposals within this IA are for a) a revenue neutral transfer of costs from those who do not use VOSA test facilities to those who do; and b) an increase in the overall net cost to business of VOSA's fees to recover VOSA costs and thereby replace income which would otherwise have been lost to VOSA because an increasing number of tests are at the lower fee which VOSA charges for tests at non-VOSA facilities.
7. With the exception of a few privately owned HGVs such as horseboxes and a few vehicles operated by civil society organisations, the customers for the services covered by this IA are businesses ranging from single vehicle operation to large companies with operations on a global scale including other transport modes (e.g. rail). On the freight side, there are some 84,000 operator licences issued. The average operator has around 4 vehicles, but the range is from 1 to several thousand. On the passenger side, there are about 9,500 licences issued with an average fleet size of around 10, but the range is from 1 to well over 1,000. These averages are derived from the Traffic Commissioners' Annual Report 2011-12⁴ and the ranges are based on VOSA experience and previous fleet check reports⁵.

History

8. Statutory roadworthiness 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. VOSA currently provides around 70 such stations stretching from Shetland to Southern England – though several of those are earmarked for closure.
9. Statutory roadworthiness 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, which VOSA accepted as being suitable, provided by 3rd parties – largely PSV operators, (i.e. non-VOSA test facilities then referred to as Designated Premises or DPs).
10. From the early 1990s, VOSA started offering HGVs the option of tests at suitable Designated Premises, some of which were repairers rather than operators of vehicles. Also from that time, VOSA started making an additional charge for testing at Designated Premises. The additional charge was to cover the cost of travel and lost time from sending staff to Designated Premises; and the typically lower throughput than at VOSA facilities.
11. Those providing Designated Premises 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

³ http://www.hm-treasury.gov.uk/psr_mpm_index.htm

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/9463/tcs-annual-report-2011-2012.pdf

⁵ <http://webarchive.nationalarchives.gov.uk/20130522140420/http://www.dft.gov.uk/vosa/corporatereports-2009-2010vosaeffectivenessreport.htm>

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 services which the facility provider was supplying to their customers. (Throughout this IA, the typical ATF pit fee is assumed to be at the level described in Annex D.)

12. In 2008 it was decided that the road transport industry could make further savings if VOSA were to provide tests at locations which were more convenient to customers. This process is referred to as the Testing Transformation Programme. Further detail on this decision can be found at Annex C.
13. Since 2010, new non-VOSA test facilities (referred to as Authorised Testing Facilities – ATFs) have been covered by a contract with VOSA which sets out obligations on both sides – e.g. the ATF is required to guarantee a minimum income for each half-day testing session (the “reservation fee”) and VOSA pays compensation if it fails to provide inspectors at the agreed times. The ATF contract also applies limits to the pit fee which ATFs may charge for the use of their facilities.
14. VOSA has also started closing its own test facilities in localities where there is an adequate supply of alternative non-VOSA facilities.
15. Before the above change process started:
 - the cost of VOSA test facilities was spread across all tests, regardless of whether the customer used the VOSA facility (now seen as effectively a cross subsidy from those using non-VOSA facilities to those using VOSA facilities); and
 - in many cases a supplement was charged for tests at non-VOSA facilities to cover VOSA’s extra costs to service those facilities.
16. To start to address the cross subsidy, supplements were halved in 2009 and removed completely in 2010. In 2012 VOSA started to charge more for tests at its own facilities than at non-VOSA facilities where supplements had previously been charged.

Problem under consideration

The Vehicle and Operator Services Agency (VOSA) carries out roadworthiness testing and other examinations of lorries (HGVs) and buses and coaches (PSVs) mandated by international agreements to improve road safety. Examinations take place in VOSA facilities or in mainly private sector, providers. Fees charged by VOSA do not fully reflect the differences in the costs for the different location types, and customers who choose non-VOSA facilities still contribute to the cost of VOSA facilities. VOSA need to reduce the fees for customers using non-VOSA facilities to reflect better the costs they incur and increase the fees for customers using VOSA facilities to recover the costs of service delivery.

17. Roadworthiness testing and related examinations of lorries (HGVs) and buses and coaches (PSVs) are required by EU law to improve road safety and the environment. They are conducted by staff of VOSA either in test facilities provided by:
 - VOSA on behalf of the Secretary of State; or
 - by other, mainly private sector, providers (DPs or ATFs).
18. VOSA also provides other services under GB law or international agreements which often involve inspections carried out at the same time as roadworthiness tests either at VOSA or non-VOSA premises.
19. As a result of the changes in policy announced in 2008, more tests are now being carried out at ATFs. This impacts on VOSA income because VOSA charges less for tests at ATFs than at its own test facilities. It also impacts on VOSA costs because more staff are needed to travel to and between a greater number of testing venues. The effect of this is that VOSA’s costs rise in relation to the number of non VOSA facilities locations we need to visit to conduct statutory roadworthiness tests.
20. The cost to VOSA of providing inspection services at VOSA and non-VOSA facilities varies because of the costs of providing VOSA test facilities and of sending inspectors out to work at larger numbers of non-VOSA facilities. Although the current fee structure includes some differentiation between VOSA and non-VOSA inspection locations, the levels of fee differentiation are less than the cost

differentials. The net effect is that those using non-VOSA facilities are cross subsidising those who use VOSA facilities.

21. Within the general problem described above there are variations because of differences in the way particular services are delivered or fees are currently structured.

HGV and PSV roadworthiness tests

22. Part of the fees for full roadworthiness HGV and PSV tests, but not partial retests, is used to cover the costs of encouraging and enforcing compliance with rules for safe and legal operation of the vehicles. 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 roadworthiness tests covers the ongoing costs of maintaining operator’s licences.
23. The changes covered by this Impact Assessment affect only the “testing” element of the fees concerned and covers both HGVs and PSVs. Thus, the overall percentage changes in fees which include enforcement of O licence elements will be less than for fees with no such element. The percentage change to individual fees will also vary because of the effects of other changes and rounding as mentioned in paragraph 2.

HGV & PSV Roadworthiness testing

24. The main factors that need to be considered in respect of these tests are:

a. Split of tests between VOSA and non-VOSA sites –

a1. The assumption made when the planning and approval process started in late 2010 in considering what fees to introduce in April 2012, was that in 2012/13, 50% of tests would be carried out at non-VOSA facilities. However, because of the success of VOSA’s efforts to encourage the non-VOSA sector, by August 2013, around 70% of tests were being conducted at non-VOSA facilities. November 2013 data that reflects the number of tests conducted each month shows that growth has slowed down since August 2013 and that our average number of tests conducted at non-VOSA sites was still around 70%. This is line with the assumption that 70% of these tests will be conducted at non-VOSA sites, which was originally made when calculating the proposed fee changes that are assessed in this impact assessment prior to the public consultation.

a2. The main factors affecting further growth of market share by non-VOSA facility providers are the geographic spread of such facilities and the rate at which VOSA withdraws from the market for testing facility provision as adequate supply of non-VOSA facilities becomes available in each locality. VOSA does not expect the rate of increase in the number of non-VOSA facilities to be sustained since the market in some parts of the country is reaching saturation point and there are other areas, particularly the more rural areas, in which non-VOSA facilities are unlikely to develop with the present model because demand levels make commercial provision of test facilities unlikely. VOSA Statistical Analysis System (SAS) Data warehouse shows that the number of new non-VOSA sites has levelled out over the last three months maintaining a constant number of locations available for statutory testing. Whilst VOSA believes that there will be minimal growth in the market share of non-VOSA facilities, for the reason stated above, VOSA believes that growth rate will continue to slow considerably, and we would expect both volumes and therefore the percentage of non-VOSA testing to remain at these levels for the foreseeable future (See a4 below).

a3. Because of the factors mentioned in paragraph a2, it is not possible to accurately predict what the rate of growth will be in the proportion of tests carried out at non-VOSA facilities. Given that VOSA is intending to review fees on a 12 month cycle, we adopt a very cautious assumption that the share of the market covered by private sector remains constant in the future (i.e. that 70% of tests will be conducted at non-VOSA facilities). We will review this assumption at the next fee assessment in 12 months time

a4. However, any revision to this assumption would mean larger increases in fees for tests at VOSA facilities because of VOSA’s inability to reduce its estate costs resulting

from a combination of the state of the property market and the required accounting treatment of reduced valuation of VOSA's remaining estate. Such changes would also open the possibility of challenge to the validity of the consultation that was based upon the 70/30 split assumption.

b VOSA testing estate costs –

b1. Between 2010-11 and 2013-14, it is estimated that costs have fallen by around £1.8 million from around £10.4 million to around £8.6 million. A large part of cost reduction came from withdrawing testing services at VOSA facilities and disposing of those sites. Withdrawal of testing at a VOSA facility happens when it becomes apparent that there will be enough ATFs in the catchment area to meet demand. As noted above most of the VOSA sites have been closed and those VOSA facilities remaining tend to be in remote areas with relatively low demand where there is little prospect of commercially viable non-VOSA facilities operating. Consequently there are limited opportunities for further expansion of private testing and this Impact Assessment has assumed that levels remain constant given lack of precise information on future demand and the fact that fees will be reviewed again next year so any discrepancy is likely to have limited impact.

b2 Estate costs themselves are broken down into three distinct elements:

- Revaluation of the estate⁶ - Accounting standards mean that any changes in the value of the estate as a result of movements in general prices must be reflected in the income and expenditure account for the year in which the revaluation takes place. Work to evaluate these effects on the income and expenditure account is underway but not yet complete. Given the uncertain state of the commercial property market which has been falling in value but may start to recover as a result of economic growth, VOSA assume that the value of the estate will remain constant for the purposes of this impact assessment.
- Maintenance costs – In 2013-14 maintenance costs are forecast to be £2.8m⁷. The level of maintenance costs depends on the number of VOSA facilities and the number of operational test lanes. Given the assumptions set out above we assume that maintenance costs remain stable.
- Disposal of estate – We have assumed that there will be no disposal of the estate so these costs must be zero.

b3 On the basis of the assumptions and discussions outlined in sections b1 and b2 VOSA has assumed that the annual cost of VOSA's testing estate will remain constant over the full appraisal period. This position will be reviewed in 12 months time when we look at whether fees need to be updated further.

c Relative costs of servicing non-VOSA and VOSA test facilities –

c1. *Testing Transformation* - The differences in cost to VOSA between providing tests at its own test facilities and at non-VOSA facilities is also a factor in determining relative fee levels. The change in the delivery method means that additional testing staff would be needed to enable inspectors to travel to facilities which may only have a few test sessions in a week given that the number of private sector facilities has risen to 70%. When fee changes which were implemented in April 2012 were being developed, VOSA had been able to provide the support within existing resources. It was unclear to what extent this was due to effective incentivisation of new non-VOSA facility providers to utilise VOSA staff more effectively, reducing demand for tests or other factors. Increases in staff costs were therefore not factored in at that stage. It has now become apparent that this was unsustainable and that additional resources will be needed, at least in the short to medium term. This has been factored in to the calculations underpinning this IA. Under the "Do Nothing" scenario, this extra cost would not be recovered.

c2. *Next Generation Testing* - During the first quarter of 2012/13 a prototyping exercise took place to evaluate a number of possible changes to VOSA's working methods and terms and conditions for testing staff. A member of VOSA's Directing Board is now working full-time to

⁶ Estate costs for testing scheme accounts are the full costs to VOSA's Income and Expenditure account attributed to that part of the estate and specialist equipment installed therein which is used for the activities covered by the particular scheme account. This include: rates, utilities, maintenance, etc; maintenance and depreciation of specialist testing equipment installed in the estate. For leased properties it includes rent and any other financial obligations of the lease. For owned properties it includes depreciation, the effects of any changes in valuation (whether from change of use or periodic revaluation) and any gain or loss to the capital account when property is disposed of.

⁷ Source - VOSA 12-13 Income and Expenditure summary year end

take forward the development and implementation of change. It is difficult at this stage to assess the long term effect on staff numbers and costs of the changes in working methods or when they will be introduced. Assumptions on extra costs to service non-VOSA facilities based on existing working practices have therefore been included in the fee model.⁸

d. The effect of more non-VOSA tests on VOSA income

d1. The fees at VOSA sites are higher than those at non-VOSA sites. Therefore, on the assumption that the overall number of tests remains constant over time, VOSA's income would decrease over time as customers continue to move from VOSA to non-VOSA facilities and the share of tests undertaken at non-VOSA facilities increases. Restoration of this "lost income" must also be factored into the fee change calculations to ensure full cost recovery.

ADR

25. Determination of applications for ADR certificates requires a technical assessment by VOSA's Swansea based specialists followed in most cases by a physical examination of the vehicle conducted at the same time as a roadworthiness test. This physical examination can be either at a non-VOSA or VOSA facility.⁹ The purpose of the technical assessment is to:
- determine the precise standards to be applied for the particular dangerous goods to be carried; then
 - ensure that information supplied in support of system approvals (e.g. braking) and specialist approvals (e.g. tank inspections) is appropriate and valid.
26. It would be inappropriate to apply location differentiation to the technical assessment element of the ADR test fee given this is done in Swansea. Technical assessments account for about 29% of the fee income from ADR tests¹⁰.
27. As noted previously, if examinations are carried out they may be carried out either at VOSA or non-VOSA test facilities. Currently, VOSA charges the same fees for ADR tests whether or not we provide the test facilities. As with roadworthiness tests, this means that those using non-VOSA test facilities still contribute to the cost of the VOSA facilities they do not use. It therefore seems logical to apply the same principle of location differentiation to ADR fees as is proposed for roadworthiness test fees.
28. The main factors to be considered in respect of the testing element of ADR tests are:

a. Split of tests between VOSA and non-VOSA sites:

a1. Between January and the end of November 2013¹¹, an average of 50% of ADR inspections has been carried out at non-VOSA facilities. As ADR tests are conducted at the same locations as roadworthiness tests and – when carried out - are done at the same time as the roadworthiness test, the main factors affecting further growth of market share by non-VOSA facility providers are similar to those of roadworthiness testing. VOSA does not expect the rate of increase in the number of non-VOSA facilities to be sustained since the market in some parts of the country is reaching saturation point and there are other areas, particularly the more rural areas, in which non-VOSA facilities are unlikely to develop with the present model because demand levels make commercial provision of test facilities unlikely..

Given that VOSA is intending to review fees on a 12 month cycle, we adopt the assumption that the share of the market covered by private sector remains constant in the future and that 50% of ADR tests will continue to be conducted at non-VOSA facilities. We will review this assumption at the next fee assessment in 12 months time. It should be noted that the proportion of tests at non-VOSA facilities continues to lag behind that of roadworthiness tests.¹² VOSA considers that this is because conducting ADR tests is seen as less commercially attractive to ATFs that do not

⁸ See Annex F – The extra costs to service non-VOSA facilities

⁹ In a few cases - in particular new type approved tractors for articulated vehicles- certificates can be issued solely on the basis of this technical assessment.

¹⁰ Source – VOSA time measurement – July 2012

¹¹ Source – VOSA SAS Data Warehouse November 2013

normally deal with vehicles which may have been carrying toxic, flammable or explosive materials.

b. VOSA testing estate costs:

b1. The considerations and uncertainties in predicting VOSA estates costs are the same as mentioned above for roadworthiness testing.

c. Relative cost of servicing non-VOSA and VOSA facilities:

c1. The factors to be considered in making assumptions on these costs differ from those on roadworthiness testing above.

c2. Firstly, generally a normal roadworthiness test must be carried out alongside a check on the ADR specific items. A separate test fee in addition to the ADR test fee is charged for this. VOSA's costs of travel to the non-VOSA facility are included in that fee. Secondly, in normal circumstances checks on the ADR specific items are integrated with the roadworthiness check thus there is no additional loss of efficiency if, for example, the test lane layout requires additional vehicle movements, which would still be needed for the accompanying roadworthiness test. Overall inclusion of this element in the ADR test fee would be double counting; therefore additional costs under this heading have not been included.

HGV notifiable alterations

29. The Goods Vehicles (Plating and Testing) Regulations 1988 include fees payable when certain alterations to HGVs are notified to VOSA. Depending on the nature of the changes the alterations may be approved with or without examination of the vehicles. Examinations may take place at the same VOSA or non-VOSA facilities used for roadworthiness tests. These fees were not subject to supplements for tests at non-VOSA facilities but from 1 April 2012, were altered to differentiate between examinations at VOSA and non-VOSA facilities. As fees are due at time of notification (i.e. before we know whether an examination will be necessary) the reconciliation of those fees can be confusing and burdensome. We therefore propose to revert to previous practice and remove the location differentiation from those fees.

Other fees and charges affected by changes in this IA

Appeals

30. Fees for appeals against refusal to issue an HGV or PSV test certificate will not be altered by the factors affecting location discussed in this IA.

Rationale for intervention

31. Council Directive 2009/40/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. Council Directive 2008/68/EC requires vehicles used for carriage of specified dangerous goods to be certified as complying with standards specified in the European Agreement Concerning the International Carriage of Dangerous Goods by Road (the ADR Agreement). In Great Britain this testing of HGVs and PSVs is carried out by 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, private sector provision has increased over time.

32. Although ADR standards are part of an international agreement, GB law requires vehicles used to carry specified dangerous goods to comply with ADR standards.

33. Fees are charged to recover the costs of providing these services, so that service users face the cost rather than taxpayers subsidising the provision of these services. The current fee structure will

¹² Source – VOSA SAS Data Warehouse November 2013

not fully recover costs and there is a degree of cross-subsidisation between user groups. Fees for all of the above services are prescribed in Regulations and can only be altered by means of Government intervention to amend the relevant Regulations.

Policy objective

The policy objectives of the proposed fee changes are to ensure that VOSA's costs are recovered whilst maintaining adequate service levels to meet customer demands and attributing costs more fairly between users of different service delivery methods;

Attributing costs more fairly

34. The proposed changes aim to reduce cross subsidisation between service users in different locations and thus improve the fairness of the system. This principle is set out in HM Treasury guidance on fees, charges and levies as documented in Managing Public Money.

Recovering costs

35. As a Government Trading Fund, VOSA is required by the Government Trading Funds Act 1973 to manage its funds to at least break even in the medium term. It is also specified in the Vehicle Inspectorate Trading Fund Order 1991 as amended; and in Managing Public Money that full costs should be recovered.

36. If this policy is adopted, it will mean that future fee changes will only need to reflect changes in costs of the alternative delivery models and changes in volumes using the particular delivery method. Such changes are likely to be less dramatic than those in this proposal.

Maintaining adequate service levels

37. The proposed changes also seek to avoid any adverse impacts in terms of maintaining our access to services for the majority of our customers in line with our service level agreements¹³.

Options Considered

Two policy options have been assessed in this IA. For each of these policy options, the IA monetises the impacts of the changes to fees for the following services:

- For lorries (including their trailers) (Heavy Goods Vehicles – HGVs):
 - roadworthiness testing; and
 - certification of vehicles for carriage of dangerous goods (ADR¹⁴ certification).
- for buses and coaches (Public Service Vehicles – PSVs):
 - roadworthiness testing.

While the impacts of changes to fees for Reduced Pollution Certificates; Low Emission Certificates; and notifiable alteration examinations have not been monetised in this IA because these make up only a very small proportion of VOSA fees (less than 3%¹⁵) and so the analysis would be disproportionate, these fees will be subject to the changes proposed in the IA.

Therefore, it should be noted that the estimates of the costs and benefits of the fee changes under the two policy options do not take account of the impacts of the changes to fees for:

- Reduced Pollution Certificates (RPCs) – to enable lower rates of vehicle taxation;
- Low Emission Certificates (LECs) – to enable free entry to the London Low Emission Zone; and

¹³ <https://www.gov.uk/government/publications/vehicle-testing-service-level-agreement>

¹⁴ ADR is an international agreement for the carriage of dangerous goods which includes vehicle requirements over and above normal roadworthiness standards for some cargos. Vehicles carrying such dangerous goods within the UK and abroad are required to comply with ADR. A roadworthiness test must be carried out at the same time as an ADR test. A normal roadworthiness test fee is charged – the ADR test fee covers the additional checks needed.

¹⁵ Source - VOSA SchemeAccountsModelSummarisation_v05 - P14.xls

- Notifiable Alterations.

The following two options have been compared to the “do nothing” option (i.e. continue to charge as present and fail to cover costs).

- *Option 1: full location cost differentiation now – i.e. charge the full cost each service delivery method to customers who choose that method; and*
- *Option 2: limit the rate at which fees for tests at VOSA increase - effectively phase the change to full differentiation over a longer period prolonging the cross subsidy.*

Option 1 is preferred. It creates a fairer fee structure; even with the proposed increases, most types of HGV roadworthiness tests are estimated to cost less at VOSA facilities than at non-VOSA facilities (when typical charges for using non-VOSA facilities are accounted for); and both options are estimated to have the same overall net cost to business.

38. This IA considers the impacts of changing fees in April 2014 over a ten year appraisal period, as the fee changes would remain in force until the regulations were amended again. However, it is anticipated that the fees introduced in April 2014 would apply in practice until around March 2015 when changes following the next fee review are expected. The IA compares the following two options to the “do nothing” option:
- Option 1 – to fully remove the cross subsidy; or
 - Option 2 – to continue to phase the transition towards removal of cross subsidy by restricting the increase in fees at VOSA – which means limiting the opportunity to reduce VOSA’s fees at non-VOSA facilities to maintain revenue neutrality.
39. The “do nothing” option (see paragraph 45) does not recover all of VOSA’s costs. It is therefore not a viable option but is used for comparison purposes.
40. The IA does not evaluate the effect of any changes to pit fees charged by ATFs. These are set by ATFs in a competitive market within maxima specified in the contract between VOSA and ATF providers. The proposals being considered at this time do not change those maxima.
41. This IA considers the recovery of costs and does not consider any differences in behavioural change between the options evaluated. VOSA considers that the prime drivers for behavioural change (i.e. changing from VOSA to non-VOSA test facilities) are the availability of non-VOSA facilities and the overall cost savings that can be realised by having vehicles tested where they are maintained and the closure of VOSA facilities.
42. If VOSA were to continue to progress gradually towards removal of the cross subsidy, this would prolong the anomaly. It would also mean that, since VOSA expects that the majority of the affected customers will be using non-VOSA facilities, the majority of these customers would be paying more than their fair share of VOSA’s costs. Considerations of the rate at which VOSA remove the cross subsidy is discussed further in Annex D. It is therefore felt that the time is now right to completely remove the cross subsidy as per Option 1. Although this means a very significant percentage increase for affected customers using VOSA facilities, it must be remembered that under the preferred option, the majority of affected customers for roadworthiness tests (who use non-VOSA facilities) are expected to see their fees reduced; on the basis of the typical ATF pit fee assumed, it is estimated that most types of HGV roadworthiness tests will still cost less at VOSA facilities than at non-VOSA facilities (see Annex D3 for a full explanation of how VOSA obtained the estimate of the typical ATF pit fee); and, as explained later in this IA, it is estimated that fees payable to VOSA represent only a tiny proportion of the cost of operating a HGV (see Annex E Part 2).

For those reasons, VOSA’s preferred option is option 1.

43. It is estimated that the net cost to business, compared to do nothing, of both options are similar. There is a net cost to business because VOSA is seeking to increase its overall revenues to account for the continuing shift of customers from using VOSA test facilities to using non-VOSA facilities, which results in reduced income because a higher proportion of tests are at the lower fees which VOSA charges at non-VOSA facilities and extra costs which VOSA incurs to service more tests at non-VOSA facilities.

44. VOSA have no hard information available which would allow us to relate the rate at which customers change to using ATFs to changes in fee differentials. Thus, VOSA's assumptions on the split of tests between VOSA and non-VOSA facilities assume that customer choice is unaffected by differential pricing.

Costs and benefits of each option — costs, volumes, etc, are per year unless stated otherwise.

Do nothing

45. If nothing were done on fee differentials:
- those who use non-VOSA test facilities would continue to subsidise those who use VOSA test facilities. This would continue to distort the market and leave providers of non-VOSA facilities at an artificial competitive disadvantage.
 - VOSA would fail to cover its costs. This is because, as more customers move to non-VOSA facilities, a higher proportion of tests are done at the lower fee charged by VOSA at those facilities. So, if action is not taken to ensure full cost recovery now, there would need to be higher fee rises in the future; or reduced service levels from VOSA in order to reduce our costs, which could lead to a growing backlog of tests and increased vehicle down time because vehicles couldn't get tests.

HGV & PSV Roadworthiness tests under the “Do Nothing” scenario

46. Table 1 below shows annual estimates of VOSA's costs attributed to the HGV and PSV testing accounts and those costs which can be attributed to tests at VOSA and non-VOSA facilities under the “Do Nothing” scenario. These estimates are based on the latest projections for 2013/14 that were available when preparing the consultation-stage IA, and the assumption that 70% of tests will be conducted at non-VOSA facilities (see paragraph 24). For the purposes of this IA, it is assumed that these estimates would be the same in all future years under the “Do Nothing” scenario.
47. Our costs take into account the scheme costs and other miscellaneous costs together with a planned surplus used within this scheme to ensure we have sufficient capital in the event of significant change. Such examples are changes in technical requirements that need to be implemented following a revised EU Directive or development that future proofs the testing scheme, for example the change in vehicle design that means we have to move away from tail pipe emission testing to on board diagnostic checks of vehicle emissions. In addition, scheme costs can be further sub-divided between those costs associated with the additional cost of servicing non-VOSA sites and VOSA testing estate specific costs.
48. It is assumed that the total number of HGV and PSV roadworthiness tests each year would be the same as projected for 2013/14 and that the proportion of these tests that are conducted at non-VOSA facilities would remain constant.
49. VOSA SAS Data Warehouse provides historic data on the volume of tests conducted over a 5 year period together with the volume of tests conducted by test location since the start of testing in non-VOSA sites. There has been some fluctuation as a result of recent economic downturn demonstrated by lower volumes in 2010/2011 and the gradual rise in testing since around 2009 when growth began in testing at non-VOSA sites, however, the test volumes have remained constant such that we are confident in our future projections. Similarly, we have tracked the growth of testing at non-VOSA sites and we are confident that our assumption that around 70% of tests will be conducted at non-VOSA sites is supported by the data warehouse evidence.

Table 1: Annual estimates of the split of costs for HGV & PSV Roadworthiness tests between VOSA and non-VOSA facilities under the “Do Nothing” scenario (all values are expressed in nominal terms)

Row	Description	Costs with 70% of tests conducted at non-VOSA facilities (£m)
A	Total costs attributed to HGV and PSV testing accounts to be recovered from fees	56.7
B	Costs of VOSA testing estate	8.6
C	VOSA costs to service non-VOSA facilities	5.7
D	Base costs – i.e. non-location specific costs (to be recovered from all tests) {A - (B + C)}	42.3

50. Table 2 shows the estimated annual income split and surplus or deficit in VOSA’s income by customer group under the “Do Nothing” scenario (i.e. if the current fee levels are maintained). The “total” column shows VOSA’s estimated total annual income from tests at both VOSA and non-VOSA facilities. Again, these estimates are based on the latest projections for 2013/14 that were available when preparing the consultation-stage IA, and the same assumptions as for the estimates in Table 1. In particular, as above, it is assumed that these estimates would be the same in all future years under the “Do Nothing” scenario.

Table 2: Annual estimates of income and costs for HGV & PSV Roadworthiness tests by customer group (£m) under the “Do Nothing” scenario (all values are expressed in nominal terms)

	Tests at VOSA facilities	Tests at non-VOSA facilities	Total
Assumed proportion of tests	30%	70%	100%
Fee income with no fee change	17.2	37.0	54.1
Base costs	12.7	29.6	42.3
VOSA testing estate costs	8.6		8.6
Non-VOSA specific costs		5.7	5.7
Total costs	21.3	35.3	56.7
Surplus / -Deficit on sub-account with no fee change	-4.2	1.6	-2.5

51. Thus, under the “Do Nothing” scenario, it is estimated that:

- customers using VOSA test facilities would be undercharged by around £4.2m in nominal terms;
- customers using non-VOSA facilities would be overcharged by around £1.6m in nominal terms; and
- VOSA would under-recover costs by around £2.5m in nominal terms.

(NOTE: here and elsewhere in the document there may be a discrepancy where the last digit in the estimates quoted appears not to add up correctly. This is because of rounding of the estimates to a uniform number of decimal places).

ADR tests under the “Do Nothing” scenario

52. Tables 3 (ADR) and 4 (ADR) below are the equivalent tables for ADR tests to Tables 1 and 2 above. These estimates have been produced using the most up to date data available to VOSA in relation to this specialised testing area which is for 2011/12, and the assumption that 50% of ADR tests are conducted at non-VOSA facilities (see paragraph 28). Generally, VOSA are already on site to carry out normal roadworthiness tests; therefore, it is also assumed that there is no additional cost to service non-VOSA facilities. In addition, VOSA does not have to recover lost income as a result of customers shifting to non-VOSA facilities because there is currently no location differentiation. In order to identify the costs shown below VOSA conducted analysis when the impact assessments were originally drafted (2012). The total costs attributed to ADR testing to be recovered from fees represents less than 1%¹⁶ of total VOSA testing income and it would be disproportionate to re-work the estimates. For the purposes of this IA, in the absence of other evidence, it is assumed that these estimates would be the same in all future years under the “Do Nothing” scenario.

Table 3: Annual estimates of the split of costs for ADR tests between VOSA and non-VOSA facilities under the “Do Nothing” scenario (all values are expressed in nominal terms)		
Row	Description	Costs with 50% of tests conducted at non-VOSA (£k)
A	Total costs attributed to ADR testing account to be recovered from fees	1,288
B	Costs attributable to technical assessment of applications - to be recovered across all application fees (but not retest fees)	371
C	Costs of VOSA testing estate associated with the physical test	218
D	Costs to service non-VOSA facilities	-
E	Base costs – i.e. non-location specific costs of physical inspection to be recovered from testing element all inspections {A - (B+C+D)}	700

Table 4: Annual estimates of the income and costs for ADR tests by customer group under the “Do Nothing” scenario (£k) (all values are expressed in nominal terms)			
	Tests at VOSA facilities	Tests at non-VOSA facilities	Total
Assumed proportion of tests	50%	50%	100%
Fee income under the “Do Nothing” scenario	459	459	917
Base costs	350	350	700
VOSA specific costs	218	0	218
Non-VOSA costs	0	0	0
Total costs	567	350	917
Surplus / -Deficit with no fee change under the “Do Nothing” scenario	-109	109	0

¹⁶ Source - VOSA SchemeAccountsModelSummarisation_v05 - P14.xls

Costs and benefits of Option 1 - preferred option: full location cost differentiation now.

HGV & PSV Roadworthiness tests (in GB) under Option 1

53. Under Option 1, fees are restructured to charge the full cost of VOSA test facilities to customers who use those facilities and to remove the cross subsidy from those who use non-VOSA facilities.
54. Table 5 shows the estimates of the fee changes for HGV & PSV Roadworthiness tests needed to ensure full cost recovery from each customer group under Option 1, and Table 6 estimates the impact of these fee changes on VOSA's income from HGV and PSV Roadworthiness tests under Option 1. For the purposes of this IA, all are VOSA's customers are assumed to be businesses.
55. Fees for HGV and PSV roadworthiness tests payable to VOSA by users of VOSA facilities are estimated to need to increase by around 24.2% under Option 1. This estimated transfer from these businesses to VOSA under Option 1 is around £4.2m per year in nominal terms.
56. In contrast, fees for HGV and PSV roadworthiness tests payable to VOSA by users of non-VOSA facilities are estimated to decrease by around 4.4% under Option 1. This estimated transfer from VOSA to these businesses under Option 1 is around £1.6m per year in nominal terms.
57. The overall impact of these fee changes under Option 1 is estimated to be a transfer from business to VOSA of around £2.5 million per year in nominal terms.
58. The increases in fees paid by vehicle presenters within GB are regarded as a transfer payment in that the fee is transferred from them to VOSA. This represents a cost to the applicant but a benefit to VOSA. The benefits to VOSA are exactly balanced by increases in costs to business and so have a zero Net Present Value (NPV) to society.

Table 5: Fee changes needed for full cost recovery by customer group under Option 1 (all values expressed in nominal terms)

	Tests at VOSA Facilities	Tests at non-VOSA Facilities	Total for all tests
Assumed proportion of tests	30%	70%	100%
Fee income under the "Do Nothing" scenario per year (£m)	17.2	37.0	54.1
Surplus / -Deficit on sub-account with no fee change per year (£m)	-4.2	1.6	-2.5
Fee change needed under Option 1 to correct surplus / deficit (%)	24.2%	-4.4%	N/A
Fee income per year after fee adjustment under Option 1 (£m)	21.3	35.3	56.7
Costs to be recovered per year (£m)	21.3	35.3	56.7

Table 6: Estimates of the impact of fee changes under Option 1 on VOSA income from HGV and PSV Roadworthiness tests (all values expressed in nominal terms)	
Proportion of tests at non-VOSA facilities (%)	70%
Tests at VOSA facilities	
Base cost to recover per year (£m)	12.7
VOSA estate cost to recover per year (£m)	8.6
Total cost to recover per year (£m)	21.3
Fee income per year under the “Do Nothing” scenario (£m)	17.2
Surplus / -Deficit on sub-account per year under the “Do Nothing” scenario (£m)	-4.2
Change in fee income from tests at VOSA facilities per year under Option 1	4.2
	24.2%
Non-VOSA Testing Sub-Account	
Base cost to recover per year (£m)	29.6
Additional non-VOSA staff costs (inc T&S) per year (£m)	5.7
Total cost to recover per year (£m)	35.3
Fee income per year under “Do Nothing” scenario (£m)	37.0
Surplus / -Deficit on sub-account per year under the “Do Nothing” scenario (£m)	1.6
Change in fee income from tests at non-VOSA facilities per year under Option 1	-1.6
	-4.4%
Total fee income per year under Option 1 (£m)	56.7

The actual percentage changes for individual fees in practice may differ because of the other elements in the fees (see paragraphs 22 and 23) and because fees are rounded to the next £1. Annex A shows the proposed individual fees with the preferred option, including the effects of the 1% general increase covered by a separate IA but discussed in Annex A of this IA.

Annex E assesses the overall effect on HGV operating costs of the changes proposed in the preferred option. In particular, it estimates the effect of the fee changes proposed in this IA plus the 1% general increase. For those choosing to use VOSA test facilities, it is estimated that the average annual fees paid to VOSA would increase by around £18.81 (around 0.030% of operating costs) for the operator of a single 7.5 tonne HGV; or just over £7,200 (around 0.030% of operating costs) for a representative mixed fleet of 250 HGVs. In contrast, it is estimated that those being tested at non-VOSA facilities would see an increase of around £1.25 (around 0.002% of operating costs) and a decrease of around £730 (around 0.003% of operating costs) on average respectively. It is estimated that the rental and leasing sector would experience an increase equivalent to around 0.092% of operating costs if tests were all carried out at VOSA facilities and a decrease equivalent to around 0.008% of operating costs if all tests were carried out at non-VOSA facilities. The estimates in this paragraph are expressed in nominal terms.

59. ADR tests under Option 1

60. Table 4 above shows the estimates of the surplus/deficit for ADR tests under the 'Do Nothing' option; it is replicated here as Table 7.

Table 7: Annual estimates of the income and costs for ADR tests by customer group under the “Do Nothing” scenario (£k) (all values expressed in nominal terms)

	Tests at VOSA facilities	Tests at non-VOSA facilities	Total
Assumed proportion of tests	50%	50%	100%
Fee income under the “Do Nothing” scenario	459	459	917
Base costs	350	350	700
VOSA specific costs	218	0	218
Non-VOSA costs	0	0	0
Total costs	567	350	917
Surplus / -Deficit with no fee change under the “Do Nothing” scenario	-109	109	0

61. Table 8 shows the annual estimates of the fee changes for ADR tests needed to ensure full cost recovery from each customer group and the impact of these fee changes on VOSA income from ADR tests under Option 1.

62. Fees for ADR tests payable to VOSA by users of VOSA facilities are estimated to need to increase by around 23.7% under Option 1. This estimated transfer from these businesses to VOSA under Option 1 is around £109,000 per year in nominal terms.

63. In contrast, fees for ADR tests payable to VOSA by users of non-VOSA facilities are estimated to decrease by around 23.7% under Option 1. This estimated transfer from VOSA to these businesses under Option 1 is around £109,000 per year in nominal terms.

64. The overall NPV of these fee changes under Option 1 is therefore estimated to be zero.

Table 8: Annual estimates of the fee changes for ADR tests needed to ensure full cost recovery and the impact of these fee changes on VOSA income from ADR tests under Option 1 (all values expressed in nominal terms)

Proportion of ADR tests at non-VOSA facilities (%)	50%
Tests at VOSA facilities	
Base cost to recover (£k)	350
VOSA estate cost to recover (£k)	218
Total cost to recover (£k)	567
Fee income under the “Do Nothing” scenario (£k)	459
Surplus / -Deficit with no fee change under the “Do Nothing” scenario (£k)	-109
Change in fee income from ADR tests at VOSA facilities under Option 1 (£k)	109
Change in fees for ADR tests at VOSA facilities under Option 1 (%)	23.7%
Tests at Non-VOSA facilities	
Base cost to recover (£k)	350
Additional non-VOSA staff costs (£m)	0
Total cost to recover (£k)	350
Fee income under the “Do Nothing” scenario (£k)	459
Surplus / -Deficit with no fee change (£k)	109
Change in fee income from ADR tests at non-VOSA facilities under Option 1 (£k)	-109
Change in fees for ADR tests at non-VOSA facilities under Option 1 (%)	-23.7%
Total VOSA income from ADR tests under Option 1 (£k)	917
Note: ADR fees have not changed since 2011/2	

Net Present Value for Option 1

65. Table 9 presents estimates of the present value of the costs and benefits of the roadworthiness and ADR fee changes under Option 1 for both business and VOSA. The appraisal period is 10 years and assumes the introduction of the policy on 6 April 2014 (i.e. the appraisal period is from 6 April 2014 to 5 April 2024). The appraisal period therefore spans 11 calendar years. To be consistent with the Impact Assessment calculator, the impacts over the 10 year appraisal period are thus split over the

11 calendar years in Table 9 below. For the purposes of this IA, it has been assumed that 75% of the annual impacts would be incurred in calendar year 2014 as the appraisal period would only cover around the last nine months of the year; that 25% of the annual impacts would be incurred in calendar year 2024 as the appraisal period would only cover around the first three months of the year; and 100% of the annual impacts would be incurred in each of the other 9 calendar years within the appraisal period.

66. The annual impacts are assumed to remain constant in nominal terms and would therefore decline in real terms over time. The costs and benefits each year have been converted from nominal terms to real terms using the latest HM Treasury GDP Deflators from December 2013¹⁷ for the period to 2018, and the Bank of England's annual inflation target as a general deflator for later years in line with the HM Treasury Green Book; the Price Base Year is 2014. In addition costs and benefits are discounted by 3.5% each year with 2014 being the Present Value Base Year.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269878/GDP_Deflators_Qtrly_National_Accounts_December_2013_update.xls

Table 9: Present Value of Costs and Benefits of Option 1 in £ms, (2014 Prices)												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Costs	4.51	5.71	5.43	5.16	4.90	4.64	4.40	4.16	3.94	3.74	0.88	47.47
Business Costs												
Cost to VOSA facility users of additional roadworthiness test fees	3.12	3.95	3.76	3.57	3.39	3.21	3.04	2.88	2.73	2.58	0.61	32.84
Cost to VOSA facility users of additional ADR test fees	0.08	0.10	0.10	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.02	0.86
VOSA Costs												
Cost to VOSA of roadworthiness test fee reductions at non-VOSA facilities	1.23	1.55	1.48	1.40	1.33	1.26	1.20	1.13	1.07	1.02	0.24	12.92
Cost to VOSA of ADR test fee reductions to non-VOSA facilities	0.08	0.10	0.10	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.02	0.86
Benefits	4.51	5.71	5.43	5.16	4.90	4.64	4.40	4.16	3.94	3.74	0.88	47.47
Business Benefits												
Lower roadworthiness test fees to non-VOSA facility users	1.23	1.55	1.48	1.40	1.33	1.26	1.20	1.13	1.07	1.02	0.24	12.92
Lower ADR test fees to non-VOSA facility users	0.08	0.10	0.10	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.02	0.86
VOSA Benefits												
Increased roadworthiness test fees from VOSA facility users	3.12	3.95	3.76	3.57	3.39	3.21	3.04	2.88	2.73	2.58	0.61	32.84
Increased test fees from ADR tests from VOSA facility users	0.08	0.10	0.10	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.02	0.86
Net Benefit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All costs and benefits discounted to 2014 using 3.5% discount rate, in line with HMT Green Book methodology												

67. Costs and benefits are also broken down by those which impact on business and those which impact on VOSA.

68. Table 9 shows that overall the net present value of Option 1 is zero. This is the preferred option as it fully adjusts fees to reflect the cost of delivering services at VOSA and non-VOSA facilities.

Costs and benefits of Option 2: Limit increases at VOSA

HGV & PSV Roadworthiness tests under Option 2

69. Under Option 2, the percentage rise in fees for those using VOSA facilities is limited – which means that cross subsidy is reduced but not removed completely.

70. Under the “Do Nothing” scenario, VOSA’s income has been reduced as a result of the shift to non-VOSA sites as more tests are being conducted at a lower fee income rate, and VOSA’s costs have increased due to the need to service non-VOSA facilities as we travel and support a greater number of non-VOSA sites. Therefore, under Option 2, there would be a point where the amount raised by increasing the fees VOSA charges for tests at VOSA facilities would fall below the level of increased costs and at this point there would be no scope for reducing the fees VOSA charges for tests at non-VOSA facilities.

71. If the cap on the increase in the fees VOSA charges for tests at VOSA facilities is less than this amount under Option 2, then the fees for both customer groups must be increased. With the assumptions made in this IA, it is estimated that the cross-over point occurs at around 14.7%. Thus,

the minimum increase in fees at VOSA facilities to avoid increases at non-VOSA facilities is estimated to be around 14.7%.

72. There are a wide range of possibilities for capping increases at VOSA without having to increase fees at non-VOSA – between around 14.7% and VOSA’s preferred option of around 24.2%. For illustrative purposes, Option 2 has been monetised at the extreme point of this range with capping at around 14.7%. It is estimated that this would result in a transfer from users of VOSA facilities to VOSA of around £2.5m per year in nominal terms; and would have no impact on users of non-facilities.
73. Table 10 shows the estimates of the fee changes needed to ensure full cost recovery whilst capping increases in fees for tests at VOSA facilities, and the remaining cross subsidy.

Table 10: Estimated changes to fees for HGV and PSV Roadworthiness tests needed for full cost recovery with increases in the fees for tests at VOSA facilities capped at the lowest level to avoid an increase in the fees for tests at non-VOSA facilities under Option 2 (£m) (all values expressed in nominal terms)			
	Tests at VOSA facilities	Tests at non-VOSA facilities	Total for all tests
Assumed proportion of tests	30%	70%	100%
Fee income per year under ‘Do Nothing’ scenario	17.2	37.0	54.1
Under / over recovery with unchanged fees per year under ‘Do Nothing’ scenario	-4.2	1.6	-2.5
Capped increase for tests at VOSA facilities under Option 2	14.7%		
Change in fee income from tests at VOSA facilities per year	2.5		
Surplus / - Deficit on sub-account with capped fee rise per year under Option 2	-1.6		
Change for tests at non-VOSA facilities under Option 2	Change in fee income from tests at non-VOSA facilities per year	0	
	(%)	N/A	

ADR tests under Option 2

74. Because the revised fees are modelled on the assumption of a 50/50 split between ADR tests undertaken at VOSA and non-VOSA facilities, the percentage increase in the fees charged for ADR tests at VOSA facilities is estimated to be the same as the percentage reduction in the fees charged for ADR tests at non-VOSA facilities. In addition, generally, VOSA are already on site to carry out normal roadworthiness tests; therefore, it is assumed that VOSA does not have to recover lost income as a result of customers shifting to non-VOSA facilities, and that there is no additional cost to service non-VOSA facilities. Thus, none of the factors mentioned above provide a lower limit on the scope for capping the percentage increase in ADR fees at VOSA facilities. Under Option 2, the minimum increase in fees for HGV & PSV Roadworthiness tests at VOSA facilities to avoid increases at non-VOSA facilities is estimated to be around 14.7% (see Paragraph 69). For illustrative purposes, Table 11 shows the estimates of the fee changes and the remaining cross subsidy when the increase in the fees charged for ADR tests at VOSA facilities is capped at 14.7%.
75. Under Option 2, fees payable to VOSA by users of non-VOSA facilities are estimated to decrease by 14.7% for ADR tests – an estimated transfer from VOSA to business of around £67,000 per year; and fees payable to VOSA by users of VOSA facilities are estimated to increase by 14.7% for ADR

tests – an estimated transfer from business to VOSA of around £67,000 per year. The overall NPV of these fee changes under Option 2 is therefore estimated to be zero.

Table 11: Annual estimates of VOSA’s income from ADR tests by customer group under Option 2

	Tests at VOSA facilities	Tests at non-VOSA facilities	Total for all tests
Assumed proportion of tests	50%	50%	100%
Fee income under the “Do Nothing” scenario (£k)	459	459	917
Under / over recovery with unchanged fees under the “Do Nothing” scenario (£k)	-109	109	0
Change in fee income from ADR tests at VOSA facilities under Option 2 (%)	14.7%		
(£k)	67		
Surplus / -Deficit on sub-account with capped fee rise under Option 2 (£k)	-41		
Change in fee income from ADR tests at non-VOSA facilities under Option 2 (£k)		-67	
(%)		-14.7%	
Remaining cross subsidy from non-VOSA to VOSA customers under Option 2 (£k)		41	
Fee income after fee adjustment under Option 2 (£k)	526	391	917
Costs to be recovered under Option 2 (£k)	526	391	917

Net Present Value for Option 2

76. Table 12 presents estimates of the present value of the costs and benefits of the roadworthiness and ADR fee changes under Option 2 for both business and VOSA. The same approach has been taken as for Table 9. Costs and benefits have been converted to 2014 prices and are discounted by 3.5% each year with 2014 being the Present Value Base year.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Costs	1.99	2.53	2.40	2.28	2.17	2.05	1.94	1.84	1.74	1.65	0.39	20.99
Business Costs												
Higher roadworthiness fees at VOSA facilities	1.89	2.40	2.28	2.16	2.06	1.95	1.84	1.75	1.66	1.57	0.37	19.92
Higher ADR fees at VOSA facilities	0.05	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.04	0.04	0.01	0.53
VOSA Costs												
Reduced ADR fees from non-VOSA facilities	0.05	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.04	0.04	0.01	0.53
Benefits	1.99	2.53	2.40	2.28	2.17	2.05	1.94	1.84	1.74	1.65	0.39	20.99
Business Benefits												
Lower ADR fees at non-VOSA facilities	0.05	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.04	0.04	0.01	0.53
VOSA Benefits												
Higher roadworthiness fees at VOSA facilities	1.89	2.40	2.28	2.16	2.06	1.95	1.84	1.75	1.66	1.57	0.37	19.92
Higher ADR fees at VOSA facilities	0.05	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.04	0.04	0.01	0.53
Net Benefit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
All costs and benefits discounted to 2014 using 3.5% discount rate, in line with HMT Green Book methodology												

77. Costs and benefits are also broken down by those which impact on business and those which impact on VOSA.

78. Table 12 shows that overall the net present value of Option 1 is zero. This option is not selected as it does not allow fees to be fully adjusted to reflect costs at sites.

Key assumptions, sensitivities and risk

79. The key assumptions made when estimating the costs and benefits of both options assessed in this Impact Assessment are set out in the following paragraphs.

Sensitivity analysis on the split of tests between VOSA and non-VOSA facilities

80. VOSA SAS Data Warehouse estimates that around 850,000 HGV and PSV roadworthiness tests are conducted annually. As explained above, it is assumed that 70% of HGV and PSV roadworthiness tests will be conducted at non-VOSA test facilities during the appraisal period (see paragraph 24). The accuracy of this assumption is dependent on the combined effect on the market economics described in paragraph 28 and external factors beyond VOSA's control. Over the full 10 year appraisal period, it is very unlikely that the proportion of tests at non-VOSA facilities will 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.

81. Over the appraisal period, if VOSA did nothing or capped the increase in fees below the level needed to ensure full cost recovery, businesses submitting vehicles for tests at non-VOSA premises would continue to contribute to some of the services they do not use and those businesses using VOSA facilities alone would, in effect, be using services that are cross subsidised by others.
82. Full cost recovery and location differentiation will create greater fee rises initially for business using VOSA facilities alone and fee decreases for those using non-VOSA facilities, but they will not now be contributing towards services they do not use. Similarly, those using VOSA testing provision sites will be bearing the full cost towards the services only they use. Both these impacts must be considered against the rapid pace of change over the last 3 years in progress to testing at non-VOSA sites together with the limitations in private sector provision as we reach saturation point (see paragraph 24 and table 1).
83. The risk is that, in the short term, if fewer than 70% of HGV and PSV roadworthiness tests are conducted at non-VOSA facilities, both VOSA's income and the costs to business would be higher than estimated above. In contrast, if more than 70% of tests are conducted at non-VOSA facilities, there would be a shortfall in VOSA's income and lower costs to business than estimated above. Table 13 below presents estimates of the effect on annual income under Option 1 if the assumed split of test locations for HGV and PSV roadworthiness tests is different from the assumption that 70% of tests will be conducted at non-VOSA facilities. As can be seen, each five percentage point variation from the assumed split is estimated to alter VOSA's income by about £1.03m per year in nominal terms. An increase (decrease) in VOSA's income equates to an increase (decrease) in the costs to business.

% of tests at non-VOSA facilities	60%	65%	70%	75%	80%
VOSA income from VOSA facilities per year (£m)	28.43	24.87	21.32	17.77	14.21
VOSA income from non-VOSA facilities per year (£m)	30.29	32.81	35.33	37.86	40.38
Total VOSA income per year (£m)	58.71	57.68	56.66	55.63	54.60
Variation from income at assumed split per year (£m)	2.06	1.03	0.00	-1.03	-2.06
Variation from income at assumed split (%)	3.6%	1.8%	0.0%	-1.8%	-3.6%

84. Similar risks apply in relation to the assumption made with regards to the location of ADR tests. Table 14 shows that it is estimated that each five percentage point variation from the assumed split would alter VOSA's ADR test income by about £22,000 per year in nominal terms. Again, an increase (decrease) in VOSA's income equates to an increase (decrease) in the costs to business.

% of tests at non-VOSA facilities	40%	45%	50%	55%	60%
VOSA income from VOSA facilities per year (£k)	681	624	567	511	454
VOSA income from non-VOSA facilities per year (£k)	280	315	350	385	420
Total VOSA income per year (£k)	961	939	917	895	874
Variation from income at assumed split per year (£k)	44	22	0	-22	-44
Variation from income at assumed split (%)	4.7%	2.4%	0.0%	-2.4%	-4.7%

85. The above tables assess the sensitivity of total VOSA income to the split by location assumed under the preferred option, Option 1. If continuation of the gradual approach illustrated by Option 2 were adopted, the effect of any errors in these assumptions would be less because the differentiation

between the fees charged at each location type would be less. Creating a fairer fees structure is considered to be the main policy objective of the changes so this is traded off against the higher risk of not recovering costs. In the longer term, the effect of inaccurate assumptions of split will be mitigated because any variation will be taken into account in future fee reviews, both in terms of balances carried forward and assumptions made on split of test locations for the next fee review. It seems likely that changes arising from the proposals in this IA will come into effect about early 2014.

Sensitivity analysis on VOSA’s estate costs

- 86. In paragraph 24b and the analysis which followed we assumed that VOSA estate costs would remain constant in the future because it was unlikely that the private sector would step in to take over services given they were provided in rural areas where demand (and revenue) are lower.
- 87. Table 15 presents a sensitivity analysis of the impact of different levels of VOSA estate costs on the fees for HGV and PSV roadworthiness tests at VOSA facilities assuming a 30/70% split of these tests between VOSA facilities and ATFs. If VOSA estate costs are higher (lower) than has been assumed under Option 1, the fees for HGV and PSV roadworthiness tests at VOSA facilities under Option 1 would be lower (higher) than required for full cost recovery. As can be seen, it is estimated that a 10 percentage point change in estate costs from the central assumption would equate to a 5 percentage point change in the increase in fees for HGV and PSV roadworthiness tests at VOSA facilities required under Option 1. Any variation from assumptions will be taken into account at the next fee review, planned implementation of which is in 2015.

Table 15: Sensitivity of fees for HGV and PSV roadworthiness tests at VOSA facilities to variations in VOSA estate costs (assuming 30% of tests carried out at VOSA facilities) (all values are expressed in nominal terms)			
	Estate costs fall by 10%	Estate costs remain constant - Central Assumption [Option 1]	Estate costs rise by 10%
Base cost to be recovered per year (£m)	12.7	12.7	12.7
Estate Cost to be recovered per year (£m)	7.8	8.6	9.5
Total costs to be recovered per year (£m)	20.5	21.3	22.2
Income under Do Nothing scenario per year (£m)	17.2	17.2	17.2
Do nothing surplus (deficit)	-3.3	-4.2	-5.0
% fee change required for full cost recovery	19.2%	24.2%	29.2%

The impact on the PSV industry and on the dangerous goods sector of the HGV industry

- 88. Annex E to this IA illustrates the effect on HGV operating businesses of various sizes, both in cash terms and relative to their overall operating costs. ADR is a specialist area in haulage and data is not available within the ADR market sector to estimate the impact of cost changes for ADR tests, therefore this has not been included in these estimates. Similarly, because of lack of public domain data, it has not been possible to carry out similar estimates for the PSV industry.

Impact of testing at non-VOSA facilities on staffing levels.

- 89. The impact of additional inspection staff has been factored in to this IA by extrapolating data produced by VOSA’s operations staff. As working methods evolve with experience, these assumed impacts may need to be adjusted. This will be taken into account in considering the next round of fee changes.

Business Net Present Value of Option 1

90. For the purposes of the OITO assessment of the policy options considered in this impact assessment, it is assumed that all of VOSA’s customers are businesses. Therefore, the direct impacts on business of the proposed changes under Option 1, the preferred option, comprise:
- Costs of higher fees for tests which are carried out at VOSA test facilities – estimated at around £4.2m per year for roadworthiness testing in nominal terms and around £0.1m per year for ADR certification in nominal terms; and
 - Benefits of lower fees for tests which are carried out at non-VOSA test facilities – estimated at around £1.6m per year for roadworthiness testing in nominal terms; and around £0.1m per year for ADR certification in nominal terms.
91. As noted above, these impacts are assumed to remain constant in nominal terms and would therefore decline in real terms over time.
92. Table 16 presents estimates of the present value of the costs and benefits to business over the ten year appraisal period under Option 1. The same approach has been taken as for Table 9. Costs and benefits have been converted to 2014 prices and are discounted by 3.5% each year with 2014 being the Present Value Base year.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Business Costs	3.2	4.1	3.9	3.7	3.5	3.3	3.1	3.0	2.8	2.7	0.6	33.7
Business Benefits	1.3	1.7	1.6	1.5	1.4	1.3	1.3	1.2	1.1	1.1	0.3	13.8
Business Net Benefits	-1.89	-2.40	-2.28	-2.16	-2.06	-1.95	-1.84	-1.75	-1.66	-1.57	-0.37	-19.92
All costs and benefits discounted to 2014 using 3.5% discount rate, in line with HMT Green Book methodology												

93. Overall the Present Value of the Net Benefit to Business under Option 1 is estimated to be around -£19.92 million over the 10 year appraisal period (Price Base Year 2014 and Present Value Base Year 2014).
94. To put the above into perspective, it is estimated that the combined effect of the preferred options in this and the other 2 IAs referred to in paragraph 2 would mean that the operator of a 7.5 tonne HGV would see its operating costs increase by around £1.25 per year (around 0.002% of operating costs) if tested at non-VOSA and by around £18.81 (around 0.030%) if tested at VOSA on average.
95. For the operator of a single large¹⁸ PSV the overall change would vary between an estimated reduction of around £2.39 (around 2 litres of diesel at December 2013 forecourt prices¹⁹) if tested at non-VOSA to an increase of around £27.63 (around 20 litres of diesel at December 2013 forecourt prices) if tested at VOSA on average. More detail of the overall effect behind these figures can be found at Annex A. The estimates in this paragraph are expressed in nominal terms.
96. These estimates have taken into account the average number of annual test failures extracted from VOSA SAS Data Warehouse. As some vehicles fail an annual test and will therefore be subject to a re-examination and subsequently a re-examination fee, this is reflected in these estimates. In addition, we have taken into account that there are a number of new licences or variations to licences issued each year and this will supplement our income. Consequently, again, the estimates include allowances for these factors.

Equivalent Annual Net Cost to Business of Option 1

97. The ‘Equivalent Annual Net Cost to Business’ (EANCB) of Option 1 - the preferred option – is estimated at around £1.81m per year (Price Base Year 2009 and Present Value Base Year 2010).

¹⁸ 23 or more passengers

¹⁹ Source – The AA Fuel Price Report December 2013

Consultation results

98. 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). Five questions related to the contents of this IA. With the exception of the proposal to simplify fees for HGV notifiable alterations (which was favoured by a significant majority), opinions on the proposals in this IA were fairly evenly divided between those who in favour of and those against the proposed changes. However, the explanations given by those who did not favour the proposals included some who felt that the location differential changes should be phased over a longer period and others who felt that we should widen the differentials beyond the point justified by VOSA’s estimated costs to encourage customers to support non-VOSA facility providers.

99. Several respondents expressed concerns at the increases faced by those for whom there was no practical option to use non-VOSA facilities. Such comments failed to recognise that, despite removing the cross subsidy of VOSA test facilities from users of non-VOSA facilities, it is estimated that, on the basis of the typical ATF pit fee assumed, the cost of all but 1 type of HGV roadworthiness test when conducted at a VOSA facility would still be less than the VOSA fee plus typical pit fee at a non-VOSA facility (see Annex D).

100. Consultees were asked for any information which could be used to improve the accuracy of the Impact Assessment; however respondents were only able to offer generalised thoughts on the effect on their particular business, much of which was focussed on service delivery rather than fee levels.

101. Having considered the consultation response, Ministers continue to favour implementing full location differentiation now – i.e. option 1. A full report on the consultation will be published when the Statutory Instruments are signed.

Direct impact on business and One-In, Two-Out (OITO)

102. The increased charges are needed to recover costs and do not change the scope of regulatory activity. Therefore, they are out of scope of OITO.

Specific Impact Tests

Statutory equality duties

103. 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

104. Operators of non-VOSA test facilities can make a charge (referred to as a pit fee) to those who choose to use their facilities. 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 provision of more convenient test locations. On the basis of the typical ATF pit fee assumed, it is estimated that the fee changes for HGV roadworthiness tests proposed in this IA will bring the fees for these tests at VOSA facilities (which include the cost of the test facilities) closer to the levels of fees for the same test at non-VOSA facilities when the pit fee is included (see Annex D). As non-VOSA test facility capacity in the catchment area of a VOSA facility reaches adequate levels, the competing VOSA site is closed leaving free competition between non-VOSA providers. 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. A full competition assessment has, therefore, not been carried out.

OITO and Small and Micro Business Assessment

105. The proposals alter the amount of fees but do not change the level of regulation and as such are out of scope of OITO.

106. 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 vehicle testing places a statutory obligation on the user to ensure compliance with minimum vehicle standards. 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.

107. 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 the fees charged to small and micro businesses than on others. VOSA Testing Transformation Programme ensures that VOSA site closure does not occur until there is sufficient testing coverage. Small businesses and their representative bodies were amongst those specifically asked to respond to the consultation on the proposed changes. Because of the convenience of on-line response, more SMEs responded than had been the case with previous consultations. The SME responses covered much the same spectrum as responses from other groups. Annex E contains a quantitative analysis of the overall effect of the entire fee change impact on different HGV by size of business.

108. As we described in Paragraph 58, by far the most significant part of the change is the increased differentiation by test location which is the subject of this IA..

Greenhouse gas impact assessment

109. 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 therefore not been quantified on the grounds of proportionality.

Wider environmental impact assessment

110. The fee changes proposed will have no predictable effects on wider environmental issues, although the policy to carry out tests at locations which are more convenient for customers will reduce heavy vehicle mileage and have a slight beneficial impact on the wider environment..

Health and wellbeing impact assessment

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

Human rights

112. The proposals have no human rights impact.

Justice impact test

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

Rural proofing

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

Sustainable development

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

Post Implementation Review (PIR) plan

Basis of the review

116. VOSA conduct an annual review of its fees and charges. The lead time for clearance means that next fee review is already underway and it is likely that it would be at least April 2015 before the results could be implemented.

Review objective

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

Review approach and rationale

118. Monitoring data is reviewed within VOSA's normal financial management, planning and reporting cycle to ensure that long term costs and income are matched. Fee levels are normally adjusted every one to two years if appropriate.

Baseline

119. Annual review as part of the Agency accounting process

Success criteria

120. Long term balance of fees and transaction costs

Monitoring information arrangements

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

Response to Regulatory Policy Committee (RPC) Opinion on Consultation-stage IA (RPC reference: RPC12-DfT-1445 (2)):

122. The RPC commented that "*The IA states (paragraph 70) that "creating a fairer fees structure is considered to be the main policy objective of the changes". The preferred option involves fees for testing of vehicles at VOSA sites increasing by about 24%, so that all costs at VOSA sites are covered, including estate costs. The IA refers to those who "do not yet have a realistic choice between VOSA and non-VOSA facilities" (paragraph C6). The IA should address whether this is likely to persist in the longer-term, e.g. because of being in a remote geographic location, and whether these users are therefore likely to incur further increases in fees as they bear the full cost of a diminishing but disparate VOSA estate.*"

123. VOSA Response

In response to the RPC's comments, additional explanation of the consideration that VOSA is giving to how to address the potential disadvantage to customers in areas with little prospect of commercially viable ATFs under the present operating model has been added to paragraph C8. In addition, further explanation of the latest data on the split of tests between VOSA and non-VOSA facilities, and an updated explanation of VOSA's expectations for how this might change in the future, has been added to paragraph 24 and paragraph 28.

124. The RPC commented that "*The IA should also provide further details on how the VOSA estate costs have been estimated*".

125. VOSA Response

In response to the RPC's comment, additional explanation of VOSA's estate costs has been added to paragraph 24b.

126. In addition, the RPC commented that the IA should "*undertake sensitivity analysis on the assumption (paragraph 71) for how these costs might change over the appraisal period*".

127. VOSA Response

128. In response to the RPC's comment, additional sensitivity analysis has been undertaken of the impacts if VOSA's estate costs differed from the assumption that has been made when calculating the

changes to VOSA fees for HGV and PSV roadworthiness tests. This is explained from Paragraph 80 onwards and a new table (15) showing this analysis has been inserted.

Annex A – Fees affected by this and other IAs and the overall effect on Business

- A1 The table below shows which fees are affected by the changes proposed in each of the 3 IAs (including this IA) which form the overall fee package. The fees affected by this IA are ticked in the column headed “Location Differentiation”. The table also shows the regulations which will need to be amended to implement the changes to fees for each of the listed services.
- Location differentiation is the subject of this IA.
- Interconnection of National Registers is a fee increase to recover the additional running costs incurred to comply with EU Regulations and is explained in a separate IA^(ref 1). This change does not affect fees covered by this IA apart from PSV testing fees some of which include an element to fund the costs of on-going maintenance of operator licences.
- 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^(ref 2)

Table A1 - Service areas affected by proposed fee changes
Separate IAs deal with each driver for change

Service area; Regulations to be amended to change fees; and charging basis	Driver for change		
	Location differentiation	Interconnection of National Registers	General increase
VOSA fees in GB			
HGV roadworthiness testing Goods Vehicles (Plating and Testing) Regulations 1988 (1988/1478) Charges vary by vehicle type (motor vehicle or trailer); size (No. of axles); and whether a full test or retest or a partial re-test after a recent failure.	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
HGV notifiable alterations Goods Vehicles (Plating and Testing) Regulations 1988 (1988/1478) Charges currently vary depending on whether an examination is carried out and where the examination is carried out	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
PSV roadworthiness testing Motor Vehicles (Tests) Regulations 1981 (1981/1694) Charges vary by vehicle carrying capacity and whether a full test or retest or a partial re-test after a recent failure.	<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) Charges vary depending on whether an examination is needed, where that examination is carried out and whether is done at the same time as a roadworthiness test.	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Low Emission Certificate (LEC) <i>No regulation amendment needed</i> <i>Charges are the same as RPC.</i>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
ADR testing International Carriage of Dangerous Goods by Road (Fees) Regs 1988 (1988/370) Charges currently vary by whether or not an examination is needed; and whether it is a partial retest after a recent failure..	<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 (1995/2909)		<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"/>

DVA fees in Northern Ireland			
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"/>

Annex A – Fees affected by this and other IAs and the overall effect on Business

A2 For HGVs, changes in operator licence fees to fund the running costs of the interconnection of 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^(ref 2). Assuming that the preferred options are adopted, the combined effect of the 2 changes is that the operator of a single 7.5 tonne lorry with a standard operator's licence would see their average fee bill:

- increase by an estimated £1.25 per year (estimated to be around 0.002% of operating costs) if the vehicle was tested at non-VOSA test facilities on average in nominal terms; and
- increase by an estimated £18.81 per year (estimated to be around 0.030% of operating costs) if tested at a VOSA test facility on average in nominal terms.

These estimates have taken into account the average number of annual test failures extracted from VOSA SAS Data Warehouse. As some vehicles fail an annual test and will therefore be subject to a re-examination and subsequently a re-examination fee, this is reflected in these estimates. In addition, we have taken into account that there are a number of new licences or variations to licences issued each year and this will supplement our income. Consequently, again, the estimates include allowances for these factors.

A3 For PSVs the situation is more complex because:

- A small element of the PSV test fee (currently £3.25) contributes to funding PSV operator licensing. Thus the increase in fees to fund the interconnection of the National Register of licensed operators of goods vehicles, buses and coaches covered in the IA^(ref 1) 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 interconnection of the National Register will also affect fees paid for applications for PSV operator licences and, depending on which sub-option in the IA^(ref 1) is adopted, may also affect fees for applications to vary such licences.

A4 Because of this complexity and the lack of data on the mix of vehicles within fleets, it is difficult to produce a meaningful figure for the effect on individual PSV 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 reduced costs estimated at around £1.39 if their vehicle was tested at a non-VOSA facility and increased costs estimated at around £19.07 per year if they used VOSA test facilities on average. The operator of a large PSV on a standard licence would experience cost reductions estimated at around £2.39 or increases estimated at around £27.63 depending on test location on average.²⁰ The estimates in this paragraph are expressed in nominal terms.

A5 The lack of public domain data on operating costs means that it is not possible to quantify the effect relative to an operator's overall operating costs, but to put these changes into perspective even the largest increase is the equivalent of about 20 litres of Diesel at December 2013 forecourt prices²¹. This annex shows not only the fees for services but, where appropriate, the effect of changes on the elements which underpin the fees. As explained in paragraph 2 and Annex A of this IA, some fees and elements of fees are affected by changes explained in other IAs. Once the various factors have been taken into account, the resulting "unrounded" fee is rounded up to the next whole pound. To prevent relativities of individual fees within a scheme being distorted over time by this rounding process, the starting point to which percentage changes are applied is the unrounded fee, or fee element, which was previously charged.

²⁰ For the purposes of this IA, the average cost is calculated as the sum of the average cost of an operator licence and the average test fees by vehicle type. The average cost of an operator licence has been calculated as the sum of a) the New Application fee multiplied by the ratio of the number of new applications per year to the number of licences in issue; and b) the Variation fee multiplied by the ratio of the number of variations per year to the number of licences in issue. The average test fees by vehicle type have been calculated as the sum of a) the relevant test fee; and b) the relevant retest fee multiplied by the average failure rate.

²¹ Source – The AA Fuel Price Report December 2013

Annex B – Fee tables

Part 1 – Fees affected by this IA which are also affected by funding the interconnection of National Registers and general increase

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

These fees are affected by Location Differentiation, National Register Interconnection and General Increase

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

Annex B – Fee tables

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

HGV Test Fees under the Goods Vehicles (Plating and Testing) Regulations 1988 (SI 1988/1478)

Fee Description		Current Fees				Proposed 2013/14 Fees				Overall % change		
		Enforcement element	Testing element	Total fee Rounded	Enforcement general increase	New enforcement element	Testing location change	Testing general increase	New testing element		Total fee rounded	
Test & full retest	Motor Vehicles											
	2 Axle at VOSA	£38.52	£58.96	£98	£0.39	£38.91	£14.27	£0.73	£73.96	£113	15.3%	
	3 Axle at VOSA	£38.52	£84.39	£123	£0.39	£38.91	£20.42	£1.05	£105.86	£145	17.9%	
	4+ Axle at VOSA	£38.52	£110.98	£150	£0.39	£38.91	£26.86	£1.38	£139.22	£179	19.3%	
	2 Axle at non-VOSA	£38.52	£54.42	£93	£0.39	£38.91	£2.39	£0.52	£52.55	£92	-1.1%	
	3 Axle at non-VOSA	£38.52	£77.90	£117	£0.39	£38.91	£3.43	£0.74	£75.22	£115	-1.7%	
	4+ Axle at non-VOSA	£38.52	£102.44	£141	£0.39	£38.91	£4.51	£0.98	£98.92	£138	-2.1%	
	OOH Sup	£0.00	£38.15	£38	£0.00	£0.00	£0.00	£0.38	£38.53	£39	2.6%	
	Trailers											
	1 Axle at VOSA	£14.98	£28.90	£44	£0.15	£15.13	£6.99	£0.36	£36.25	£52	18.2%	
2 Axle at VOSA	£14.98	£43.93	£59	£0.15	£15.13	£10.63	£0.55	£55.11	£71	20.3%		
3 Axle at VOSA	£14.98	£55.49	£71	£0.15	£15.13	£13.43	£0.69	£69.61	£85	19.7%		
1 Axle at non-VOSA	£14.98	£26.68	£42	£0.15	£15.13	£1.17	£0.26	£25.76	£41	-2.4%		
2 Axle at non-VOSA	£14.98	£40.55	£56	£0.15	£15.13	£1.78	£0.39	£39.15	£55	-1.8%		
3 Axle at non-VOSA	£14.98	£51.22	£67	£0.15	£15.13	£2.25	£0.49	£49.46	£65	-3.0%		
OOH Sup	£0.00	£23.98	£24	£0.00	£0.00	£0.00	£0.24	£24.22	£25	4.2%		
Retest PAID (partial up to 14 Day)	Motor Vehicles											
	2 Axle at VOSA	£0.00	£39.31	£40	£0.00	£0.00	£9.51	£0.49	£49.31	£50	25.0%	
	3 Axle at VOSA	£0.00	£55.49	£56	£0.00	£0.00	£13.43	£0.69	£69.61	£70	25.0%	
	4+ Axle at VOSA	£0.00	£72.83	£73	£0.00	£0.00	£17.63	£0.90	£91.36	£92	26.0%	
	2 Axle non-VOSA	£0.00	£36.28	£37	£0.00	£0.00	£1.60	£0.35	£35.03	£36	-2.7%	
	3 Axle at non-VOSA	£0.00	£51.22	£52	£0.00	£0.00	£2.25	£0.49	£49.46	£50	-3.8%	
	4+ Axle at non-VOSA	£0.00	£67.23	£68	£0.00	£0.00	£2.96	£0.64	£64.91	£65	-4.4%	
	OOH Sup	£0.00	£19.62	£20	£0.00	£0.00	£0.00	£0.20	£19.82	£20	0.0%	
	Trailers											
	1 Axle at VOSA	£0.00	£19.65	£20	£0.00	£0.00	£4.76	£0.24	£24.65	£25	25.0%	
2 Axle at VOSA	£0.00	£27.75	£28	£0.00	£0.00	£6.71	£0.34	£34.80	£35	25.0%		
3 Axle at VOSA	£0.00	£36.99	£37	£0.00	£0.00	£8.95	£0.46	£46.41	£47	27.0%		
1 Axle at non-VOSA	£0.00	£18.14	£19	£0.00	£0.00	£0.80	£0.17	£17.52	£18	-5.3%		
2 Axle at non-VOSA	£0.00	£25.61	£26	£0.00	£0.00	£1.13	£0.24	£24.73	£25	-3.8%		
3 Axle at non-VOSA	£0.00	£34.15	£35	£0.00	£0.00	£1.50	£0.33	£32.97	£33	-5.7%		
OOH Sup	£0.00	£13.08	£13	£0.00	£0.00	£0.00	£0.13	£13.21	£14	7.7%		
Retest PART PAID (next day - minor)	Motor Vehicles	£0.00	£13.34	£13	£0.00	£0.00	£0.00	£0.13	£13.47	£14	7.7%	
	Trailers	£0.00	£6.67	£7	£0.00	£0.00	£0.00	£0.07	£6.74	£7	0.0%	
Notifiable Alteration	All types											
	with exam at VOSA	£0.00	£27.75	£28	£0.00	£0.00	£1.07	£0.27	£26.94	£27	-3.6%	
	with exam at non-VOSA	£0.00	£25.61	£26	£0.00	£0.00	£1.07	£0.27	£26.94	£27	3.8%	
	without exam	£0.00	£27.75	£28	£0.00	£0.00	£1.07	£0.27	£26.94	£27	-3.6%	
OOH Sup	£0.00	£13.08	£13	£0.00	£0.00	£0.00	£0.13	£13.21	£14	7.7%		
Appeal Duplicate document	All types	£0.00	£30.61	£31	£0.00	£0.00	£7.41	£0.38	£38.39	£39	25.8%	
		£0.00	£13.08	£13	£0.00	£0.00	£0.00	£0.13	£13.21	£14	7.7%	

Note. HGV test fees do not attract an 'O' Licence element as this is paid direct to the Licensing Office as a separate transaction

Annex B – Fee tables

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

Reduced Pollution Certificate Fees under the Road Vehicles (Registration and Licensing) Regulations 2002 (SI 2002/2742)

Fee Description	Current Fees		Proposed (2013/14) Fees				Overall % change
	Unrounded	Fee Rounded	Location change	General increase	Fee rounded		
Without examination	£32.00	£32	£0.00	£0.32	£33		3.1%
With examination at GB at VOSA	£19.79	£20	£4.79	£0.25	£25		25.0%
Annual Test / ColIF GB at non-VOSA	£18.27	£19	-£0.80	£0.17	£18		-5.3%
NI at DVA	£19.79	£20	£0.00	£0.00	£20		0.0%
With examination at GB at VOSA	£33.76	£34	£8.17	£0.42	£43		26.5%
other times GB at non-VOSA	£31.16	£32	-£1.37	£0.30	£31		-3.1%
NI at DVA	£33.76	£34	£0.00	£0.00	£34		0.0%
Out of Hours supplement (Not available in NI)	£11.99	£12	£0.00	£0.12	£13		8.3%

ADR Fees under the International Carriage of Dangerous Goods by Road (Fees) Regulations 1988 (SI 1988/370)

Fee description	Current Fees				Proposed (2013/14) Fees				Overall % change	
	Technical Assessment element	Testing element	Total fee Rounded	Tech Assessment general increase	New tech assessment element	Testing location change	Testing general increase	New testing element		Total fee rounded
Individual inspection (annual roadworthiness test & full retest at VOSA)	£28.34	£70.85	£99	£0.28	£28.62	£16.79	£0.88	£88.52	£118	19.2%
Re-test at VOSA (up to 14 days)	£28.34	£70.85	£99	£0.28	£28.62	-£16.79	£0.54	£54.60	£84	-15.2%
Re-test at VOSA (up to 14 days)	£0.00	£50.14	£50	£0.00	£0.00	£11.88	£0.62	£62.64	£63	26.0%
Re-test at non-VOSA (up to 14 days)	£0.00	£50.14	£50	£0.00	£0.00	-£11.88	£0.38	£38.64	£39	-22.0%
Type approval	£28.34	£0.00	£28	£0.28	£28.62	£0.00	£0.00	£0.00	£29	3.6%
Duplicate	£14.17	£0.00	£14	£0.14	£14.31	£0.00	£0.00	£0.00	£15	7.1%

Annex C – Changes to testing and inspection service delivery

The change process in which we are engaged

C1 Savings in staff and fuel costs can often be made by using Authorised Testing Facilities (ATFs) because they are likely to be closer to where the vehicle is normally based and usually have repair facilities on-site and often carry out the test preparation of the vehicle (see Annex G). Following a review in 2008 of how statutory roadworthiness testing of HGVs and PSVs was delivered, the Minister (Jim Fitzpatrick) announced to the Commons on 3 July^(ref 4) that VOSA had been tasked with providing tests at locations which are more convenient to customers. Continuation of this policy has been endorsed by present Ministers. Delivery of this policy is referred to as the Testing Transformation Programme (TTP).

C2 The decision to encourage more tests at locations where, or nearer to where, vehicles are maintained was based on a Testing Transformation Programme developed in accordance with Treasury investment appraisal principles set out in The Green Book - Appraisal and Evaluation in Central Government. This programme of work was set out in VOSA Business Plan 2009/10 and subsequent plans. Transforming the delivery of our services by bringing the test closer to where vehicles are maintained showed a net benefit to customers and a major factor in this benefit comes from reduced vehicle downtime and reduced costs for vehicle presenters' staff time and vehicle mileage to bring vehicles to VOSA test locations.²²

C4 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 years²³. 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.

C5 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.

C6 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 depends on a number of factors, many of which are outside VOSA's control.

C7 To further encourage Testing Transformation, and the development of a competitive market for provision of test facilities, VOSA employs a number of strategies. The main tactics are:

- encouraging businesses to open non-VOSA test facilities by promoting the benefits offering their customers one stop shops for maintenance and testing services, restructuring fees which VOSA charges to ensure that they reflect the true costs to VOSA of the different delivery models and closing VOSA test facilities once there is sufficient non-VOSA testing capacity in their catchment area;
- to provide more locations and encourage a competitive market in the provision of such facilities giving customers greater choice by, amongst other things, encouraging the establishment of new ATFs and replacing the informal arrangements with Designated Premises (DPs) by a formal contract with ATFs setting out the respective responsibilities of VOSA and the ATF;
- helping customers to understand what test facilities are available in their area and that the test fee is only part of the full cost of testing;
- reducing, by closure and/or consolidation, the availability of VOSA facilities as the market in non-VOSA facilities develops;
- ensuring that fees charged by VOSA for testing at its own test facilities and non-VOSA facilities reflect the different costs to VOSA of the two delivery methods; and
- developing more flexible working methods for VOSA testing staff to reduce cost.

²² Annex G - Anecdotal evidence of industry benefit savings

²³ Source – VOSA Estates Modernisation project post implementation review extrapolated

L:\Fees and Regulations\Legislation - nonMOT\Fees\Statutory Fees\2014\Impact Assessments\Location Differentiation\Final Stage V6

Annex C – Changes to testing and inspection service delivery

C8 VOSA is actively considering how to address the potential disadvantage to customers in areas with little prospect of commercially viable ATFs under the present operating model. VOSA does not consider this is not an issue in the short term because the fees proposed in this IA at VOSA test facilities for HGV roadworthiness tests are, in almost all cases, still estimated to be lower than the VOSA fee plus typical pit fee at ATFs on the basis of the typical ATF pit fee assumed (see Annex D). In the longer term, if we relied on commercial factors alone to create ATF capacity and closed all remaining VOSA test facilities, customers in some more rural areas would be faced with unacceptably long journeys to the nearest commercially viable ATF. VOSA is actively exploring a number of service delivery models aimed at keeping fees for testing in such areas at reasonable levels. Should such measures alone fail to reduce costs sufficiently, consideration may have to be given to re-introducing some form of subsidy, either from public funds or from customers in more densely populated areas, to prevent undue disadvantage to customers in remote areas.

HGV & PSV Roadworthiness testing

D1 A consideration in determining what changes to make is to balance the effects on non-VOSA customers who benefit from fee reductions against VOSA customers who face fee increases – the former would be best served by complete removal of the remaining cross subsidy, the latter would benefit from continuing the gradual transition of past years. The number of customers adversely affected by any change in fees and the percentage change in fees to complete this transition is affected by the proportion of tests conducted at each location type. With 50% of tests at each location type, equal numbers would face increases and reductions and the percentage change in fees would be equal and opposite for the transfer of any given cost from customers using non-VOSA facilities to customers using VOSA facilities. With larger percentages of tests at non-VOSA facilities, transferring a given cost would mean that more customers benefited from reductions than suffered from increases. However, the percentage reductions in fees for customers using non-VOSA facilities would be less than the percentage increases needed for customers using VOSA facilities to raise the same amount.

D2 In the April 2012 and earlier fee changes, there had been a series of relatively small steps towards the goal of removing cross subsidy (see table D1 below). The driver behind changing fees by small steps had been to limit the rate at which fees rose for the majority of customers that still brought their vehicles to VOSA facilities for test. The focus had been on the fees charged by VOSA. Now that the majority of tests take place at non-VOSA facilities¹ (see Paragraph 24 onwards earlier in this Impact Assessment), it seems more appropriate to take a wider view and compare the fees for a test at a VOSA facility (the fee for which includes the cost of the test facility) with the fees for a test at a non-VOSA facility including not only the charge from VOSA for the inspection but the charge from the non-VOSA facility provider for the use of the facility (the pit fee).

D3 Under the ATF contract, pit fees are capped at £40, £55 and £70 for HGV trailers, HGV motor vehicles and PSVs respectively. Pit fees actually charged to third party presenters vary from £zero to the capping level – though we suspect that the £zero fees are likely to be “introductory offers” to establish a customer base for a new ATF or “loss leaders” in the hope that those bringing their vehicles for test will buy other services offered by the ATF providers. VOSA do not retain data of pit fees charged in the commercial market. However, we do hold ATF meetings regularly and they have provided us with indicative typical fees for HGV motor vehicles are in the £35 to £40 range in nominal terms. In the tables below, the typical ATF pit fee is therefore assumed to be £40 in nominal terms. The conclusions of this analysis are sensitive to this assumption. Table D1 below illustrates the progression in the fees charged by VOSA facilities and, since the introduction of ATFs, of differentials between total fee costs for a 2 axle HGV² and of the options considered for the next fee change. Table D2 compares total fees under Option 1 (full location cost differentiation) for other HGV motor vehicles. These estimates show that even under Option 1, the test fee at VOSA is still lower than the total fee at non-VOSA for all but 4 axle HGVs.

¹ Source – VOSA SAS Data Warehouse

² 2 axle HGVs are the largest single group of HGVs and PSVs tested and account for about 36% of all annual tests.

Annex D - Considerations of the rate at which we remove the cross subsidy
Table D1 – Changes in differentials between tests at VOSA and non-VOSA test facilities over recent years for a 2 axle HGV (values are expressed in nominal terms)

Period Assumed dates ³	Total fee at VOSA facilities	VOSA fee at non-VOSA facilities	Typical ATF pit fee	Estimated total fee at non-VOSA facilities
April 07 to July 09	£51	£63	N/A ⁴	
July 09 to April 10	£75	£82	N/A	
April 10 to March 12	£95	£95	£40	£135
April 12 to present	£98	£93	£40	£133
Option 1	£113	£92	£40	£132
Option 2	£108	£94	£40	£134

Table D2 – Option 1 differentials for HGV motor vehicles (values are expressed in nominal terms)

Year	Total fee at VOSA	VOSA fee at non-VOSA	Typical ATF pit fee	Estimated total fee at non-VOSA
2 axle	£113	£92	£40	£132
3 axle	£145	£115	£40	£155
4 axle	£179	£138	£40	£178

D4 Under VOSA's preferred option, it is estimated that the total fee at a non-VOSA facility, charging typical pit fees, for a 4 axle HGV is slightly lower than at a VOSA facility. In the longer term, the net effect⁵ of the above factors is expected to lead to continuing narrowing and eventual reversal of total fee differentials in other cases. Those ATFs charging pit fees well below average may already be providing cheaper tests in more cases than at VOSA. When this reversal happens for others will depend on a number of factors including:

- which option is adopted in this and future fee change rounds;
- the continued rate at which availability of non-VOSA facilities grows;
- the rate at which test customers move from VOSA to non-VOSA test facilities;
- the effect of revaluation of VOSA's estate;
- the rate at which VOSA facilities can be reduced in size or closed;
- the rate at which surplus VOSA facilities can be disposed of, a significant influence on which will be property market conditions;
- whether the surplus sites are VOSA owned or leased and the book value of owned sites compared to the anticipated proceeds in the event of their sale;
- 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; and
- the pit fee charged by the chosen ATF.

³ Previous fees displayed digitally have changed over time to the up to date fees and the changes from VOSA, Transport Office, Business Link and now Gov.UK mean the National Archives does not retain historic fee charges. However, this can be obtained in hard copy by contacting the author.

⁴ No ATFs before 2010/11 and no information on typical fees charged by DPs

⁵ Although VOSA estate costs overall are expected to reduce in the medium term, lower throughput at remaining VOSA facilities is expected to lead to higher cost per test. This is expected to outweigh any changes in VOSA's costs to service non-VOSA facilities.

ADR

D5. At present the ADR test fee is common to all locations. This creates a cross subsidy because those using non-VOSA facilities are contributing to the cost of VOSA facilities. With hindsight, it would probably have been logical to start addressing this cross subsidy earlier and making the change in a gradual manner, however this was not done.

D6. A much lower proportion of ADR tests are conducted at non-VOSA facilities. It is assumed that this will continue to lag for some time, but in the appraisal period, it is assumed that there will be a 50/50 split (see paragraph 28 onwards earlier in this Impact Assessment). It could therefore be argued that phased removal of cross subsidy was more appropriate in this case. However, as the cross-over point at which more customers benefit from reductions than suffer from increases is assumed to occur sometime during 2014 and our preferred option is to fully remove the cross subsidy in a single step for other test types, VOSA's current view is that the most sensible solution is to remove the cross subsidy from ADR fees in a single step. This would reduce changes in future years when only changes in the split of tests would need to be considered.

Annex E – Effect of fee changes on HGV operating costs

This Annex shows the data used and estimates of the effect of changes to HGV fees as a result of the overall effect of the fee changes proposed 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 the subject of this IA. The overall package proposed includes a 1% increase in operator licence fees to fund the interconnection of National registers 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”. For the purposes of this impact assessment, it has been assumed that these costs will remain constant in nominal terms during the appraisal period. 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 effect on those who choose to have their vehicles tested at VOSA facilities and at non-VOSA facilities. Part 2 also shows the estimated effect on the overall operating costs of the rental and leasing sub-sector of the road freight industry. The mix distribution is based around last data collected by VOSA 2010/11 and displayed in the VOSA Effectiveness Report²⁹ and makes reasonable assumptions on the average fleet mix based upon this data to provide meaningful analysis of estimated costs. These estimates are sensitive to the assumptions that have been made, and should therefore be interpreted as indicative orders of magnitude. It should be noted that the values in the tables in this section are expressed in nominal terms.

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

Total Operating Costs					Rental and Leasing Industry (RLI) Costs				
Source: RHA "Cost tables 2012".					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
	Motor vehicles		109,949
	Trailers		19,297
			Total fleet
			129,246

Annex E – Effect of fee changes on HGV operating costs

VOSA Charges

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
Current	£254.00	£397.00	£254.00	£119.52
Option 1	£259.00	£405.00	£259.00	£121.91
Change	£5.00	£8.00	£5.00	£2.39

For the purposes of this IA, the average is calculated as the sum of a) the New Application ('New App') fee multiplied by the ratio between the number of New applications per year and the number of Licences in issue; b) the Variation fee multiplied by the ratio between the number of Variations per year and the number of Licenses in issue; and c) 1/5 of the Grant / Continuation ('Grant / Cont') fee.

Test fees by vehicle type

Trailer ratio	2.16	Motor vehicles	14.2%	Trailers	13.8%
		Artic tractors		105,300	From Transport Statistics GB, 2011 edition (table 9.6 specially reproduced)
		Trailers		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
Current	£98.00	£40.00	£103.70	£123.00	£56.00	£130.97	£150.00	£73.00	£160.40
Option 1	£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			
Current	£59.00	£28.00	£62.86	£71.00	£37.00	£76.10			
Option 1	£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
Current	£93.00	£37.00	£98.27	£117.00	£52.00	£124.40	£141.00	£68.00	£150.68
Option 1	£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			
Current	£56.00	£26.00	£59.59	£67.00	£35.00	£71.83			
Option 1	£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			

For the purposes of this IA, the average is calculated as the test fee plus the retest fee multiplied by the average fail rate.

Annex E – Effect of fee changes on HGV operating costs

PART 2 – EFFECT ON BUSINESSES

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

	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 under Option 1	Change from current VOSA charges	VOSA Charges under Option 1	Change from current VOSA charges	VOSA Charges under Option 1	Change from current VOSA charges	VOSA Charges under Option 1	Change from current VOSA charges
Tests at VOSA	£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%
Tests at ATF/DP	£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 under Option 1	Change from current VOSA
If all tests at VOSA	Total fee costs (£m)	£25,826,102	£3,836,815
	% of total costs	0.622%	0.092%
If all tests at ATF/DP	Total fee costs (£m)	£20,477,973	-£351,409
	% of total costs	0.493%	-0.008%

Annex F – The extra cost of servicing non-VOSA premises

The extra cost of servicing non-VOSA premises

As testing at non-VOSA sites continues to grow more and more VOSA Examiners are now attending test locations away from their home base. The additional costs of servicing non-VOSA sites are derived from the need for additional staff required to support the non-VOSA site network of approximately 400 ATFs and the additional travel costs incurred by VOSA supporting this network.

The costs of increasing the percentage of HGV and PSV roadworthiness tests undertaken at non-VOSA facilities from 50% to 60% have been assessed by VOSA. This analysis estimated that VOSA's support costs would increase by around £80,000 per 1% increase in the percentage of HGV and PSV roadworthiness tests undertaken at non-VOSA facilities. In the absence of other evidence, this estimate has been assumed to remain constant in nominal terms during the appraisal period for the purposes of this IA.

Cost changes to support non-VOSA testing - travel time & costs, etc.		
Percentage at non-VOSA	50%	60%
cost of extra support (£m)		0.82
Support cost per 1% at non-VOSA (£m)		0.08

Annex G – Examples of benefit savings to Industry

Stockport Truck Centre said:

“It was a no-brainer to look to do the testing ourselves – I’d be saving myself £80,000 a year”

Scania dealer SJ Bargh said:

“We have a fleet of over 2000 trucks. The company is already saving £100 per truck by not trekking the 17 miles to the VOSA-operated test lane.”

Bulwell Trailer Solutions said:

“The ethos was to bring some quality to the testing business, and my business partner – a qualified accountant – and I decided an ATF was a good route to take. We average around 14-16 tests a day at our own lane, saving the company £60,000 per year and giving a return on our investment in three years.”

Hoddesdon Truck Centre said:

“Making the decision to open the ATF has meant that our customers as well as our own fleet will be able to save vast some of money. On average it used to cost £240 to send each vehicle to test, if you factor in getting the vehicle to the test station, waiting for it to be tested then getting back. This is even before you might have to do a re-test at a later date. Being able to do the maintenance and the testing under one roof has enabled us to increase our customer service to a whole new level”.