

<b>Title:</b> Driving Test Fee Changes 2014/15  <b>IA No:</b> DfT00277  <b>Lead department or agency:</b> Driver and Vehicle Standards Agency  <b>Other departments or agencies:</b> Department for Transport	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 4/06/2014			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Secondary legislation			
	<b>Contact for enquiries:</b> Robin Massey, DVSA  robin.massey@dsa.gsi.gov.uk			
<b>Summary: Intervention and Options</b>			<b>RPC Opinion:</b> Not Applicable	

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
£0.00m	£0.00m	£0.00m	No	NA

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

The cost to the Driver and Vehicle Standards Agency (DVSA) of delivering the driving theory test will reduce from September 2014, under revised contract arrangements. This Impact Assessment proposes that savings from the reduction in the cost of the contract are passed on to customers via lower fees for tests - without action, the test fee to drivers is higher than the cost incurred by DVSA. Driving test fees are set in legislation therefore regulatory change is required to pass on the cost savings.

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

The policy objective is to deliver cost savings to those persons taking driving tests in line with the “user pays” principle. This means that the user pays only for the cost of delivering the service they receive. This will ensure economic efficiency.

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

We have considered two options:  
 Option 1 – to make no change, leaving the theory test fee as it is.  
 Option 2 – to reduce the theory test fee as a result of the revised cost of the service.  
 We do not believe that failing to take advantage of the reduction in the theory test fee would be acceptable. DVSA, as a government agency, is responsible for prudent management of public funds, with benefits arising from savings being passed onto the customer, wherever possible.  
 The fees for driving theory tests are contained in the Motor Cars (Driving Licences) regulations 1999, the Motor Cars (Driving Instruction) Regulations 2005 and the Vehicle Drivers (Certificates of Professional Competence) Regulations 2007. It is therefore not possible to make this change without amending the regulations.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> Ongoing					
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.	<b>Micro</b> No	<b>&lt; 20</b> No	<b>Small</b> No	<b>Medium</b> No	<b>Large</b> No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A		<b>Non-traded:</b> N/A

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

Signed by the responsible Minister:

Stephen Hammond MP Date: 9 June 2014

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Reduce theory test fee as a result of the contract reductions

## FULL ECONOMIC ASSESSMENT

<b>Price Base Year</b> 2014	<b>PV Base Year</b> 2014	<b>Time Period Years</b> 10	<b>Net Benefit (Present Value (PV)) (£m)</b>		
			<b>Low: NQ</b>	<b>High: NQ</b>	<b>Best Estimate: 0.00</b>

<b>COSTS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Cost (Present Value)</b>
<b>Low</b>	NQ		NQ	<b>NQ</b>
<b>High</b>	NQ		NQ	<b>NQ</b>
<b>Best Estimate</b>	0		£14.5	<b>£120.6</b>

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

The present value of costs to DVSA from reduced fee income from theory tests is £120.6 million over the appraisal period. The annual value of costs to DVSA in 2014 prices from reduced fees is £14.5 million.

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

No additional costs have been identified.

<b>BENEFITS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Benefit (Present Value)</b>
<b>Low</b>	NQ		NQ	<b>NQ</b>
<b>High</b>	NQ		NQ	<b>NQ</b>
<b>Best Estimate</b>	0		£14.5	<b>£120.6</b>

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

The present value of benefits to customers for driving theory tests is £120.6 million over the appraisal period. The annual value of benefits in 2014 prices from reduced fees equates to £14.5m.

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

No key non-monetised benefits have been identified. The renegotiation of the theory test contract is not within scope of this IA.

Key assumptions/sensitivities/risks	<b>Discount rate (%)</b>	3.5%
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It is assumed that demand for theory and practical driving tests will remain at planned levels throughout the period covered by this IA. The main risk is that this demand may fluctuate, depending on economic and social factors which cannot be known at present. We do not believe that the size of the fee changes proposed will be large enough to affect demand.

## BUSINESS ASSESSMENT (Option 1)

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OITO?</b>	<b>Measure qualifies as</b>
<b>Costs: 0.0</b>	<b>Benefits: 0.0</b>	<b>Net: 0.0</b>	No	NA

# Evidence Base (for summary sheets)

## Problem under consideration

1. The proposals in this Impact Assessment (IA) establish a new fee structure for driving theory tests as a result of a revised theory test contract. This will come into effect in early September 2014 and will deliver savings to the public sector, which we believe should be passed onto the customer through lower fees.
2. The current fees charged for tests are shown at table 1 below. This indicates a £31 fee for those taking car and motorcycle theory tests, with charges of £30 applying to the theory test taken for the Certificate of Professional Competence, £35 for the multiple choice element of the licence acquisition vocational theory test and £90 for the examination taken by prospective driving instructors. Other fees are below this in table 1.
3. The cost to DVSA of delivering these different tests will be reduced under the new contract. This will be reflected in the new fee levels contained in this IA. These are shown in columns 3 and 4 of table 1.

## Rationale for intervention

4. The start of a new theory test contract, which will result in reduced costs for DVSA, provides an ideal opportunity to reduce the fees charged to customers. This is in line with the overall policies of promoting efficiency in delivery of public services, reducing costs from government procurement, reducing the cost of motoring and making the process of obtaining a driving licence as straightforward and economic as possible

## Policy objective

5. The policy objective is:
  - To ensure that the fees charged for theory tests are reduced as a result of savings achieved from a revised contract.
  - Subject to the necessary regulatory clearance procedure, to ensure that this occurs as close as possible to the commencement of the new theory test contract in September 2014.

## Description of options considered

6. We have considered the following options.

### Option 1 – Do Nothing

7. Under this option fees remain at their current level. There are no additional costs or benefits to this option as there is no change.

### Option 2 – Reduce theory test fee

8. Under this option, there would be reductions in fees charged for theory tests. The most significant of these in terms of volume is the test delivered by DVSA and taken by new car drivers – expected to be some 1.78 million in 2014/15, 1.8 million in 2015/16 and 1.82 million thereafter. The fee for this test would be reduced from £31 to £25 in October 2014 and to £23 in October 2015. This reflects the timescale of changes in theory test contractual arrangements. There would be additional changes in other theory test fees. The proposed changes are shown in table 1 below<sup>1</sup>.

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<sup>1</sup> The level of individual fee reductions reflect the overall costs of delivering each service and takes account of volumes of tests delivered.

<b>Table 1: Proposed changes to test fees</b>			
	Current fee per test	New fee per test - October 2014	New fee per test - October 2015
Car theory test	£31.00	£25.00	£23.00
Abridged theory test	£24.00	£19.00	£18.00
Motorcycle theory test	£31.00	£25.00	£23.00
Lorry and bus licence acquisition multiple choice questions	£35.00	£28.00	£26.00
Lorry and bus licence acquisition Hazard Perception Test (HPT)	£15.00	£12.00	£11.00
Certificate of Professional Competence (CPC) theory test	£30.00	£24.00	£23.00
Delegated car and motorcycle theory test	£18.50	£15.00	£15.00
Delegated CPC theory test	£30.00	£27.00	£26.00
Delegated HPT	£9.00	£9.00	£9.00
Delegated multiple choice questions	£20.00	£12.00	£12.00
Approved Driving Instructor (ADI) theory test	£90.00	£83.00	£81.00

#### Monetised costs to drivers

9. There are no monetised costs to drivers from this proposal.

#### Non-monetised costs to drivers

10. This proposal is simply financial. There is no change to the arrangements for booking or taking tests. We have therefore identified no non-monetised costs to drivers from the change.

#### Monetised costs to business

11. These proposals will reduce the fees paid for tests taken by individual drivers. They will also affect the finances of the public sector. They will not increase any costs paid by businesses. They will therefore not impose a burden on business.

#### Non-Monetised costs to business

12. We have identified no non-monetised costs to business from the change.

#### Monetised costs to public sector

13. There will be a reduction in income to DVSA for the various theory test fees (see table 1 above). The main one of these is the reduction of £6, and then a further £2, per theory test for car tests, which is taken by all new car drivers.

14. The overall reductions in income to DVSA are based on the anticipated number of tests taken multiplied by the reduction in fees. For the purposes of this IA, it is assumed that the fee remains fixed in nominal terms. There may be future changes over the period covered by the IA but we are not in a position to anticipate what they may be, or when they might occur. The forecast test volumes are shown in table 2. The total reduction in income is £145 million in 2014 prices and is shown in table 3.

**Table 2: Forecast Numbers of Tests Over the Appraisal Period<sup>1</sup>**

	Car theory test	Abridged theory test	Motorcycle theory test	Lorry and bus licence acquisition multiple choice questions	Lorry and bus licence acquisition Hazard Perception Test (HPT)	Certificate of Professional Competence (CPC) theory test	Delegated car and motorcycle theory test	Delegated CPC theory test	Delegated HPT	Delegated multiple choice questions	Approved Driving Instructor (ADI) theory test	Total
Numbers of theory tests 2014/15	890,000	8	33,000	27,500	24,500	18,000	3,350	3,250	9,500	9,000	2500	1,020,608
Numbers of theory tests 2015/16	1,800,000	15	68,000	57,000	51,000	38,000	6,700	6,500	19,000	18,000	4000	2,068,215
Numbers of theory tests 2016/17	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3000	2,093,215
Numbers of theory tests 2017/18	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3000	2,093,215
Numbers of theory tests 2018/19	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3000	2,093,215
Numbers of theory tests 2019/20	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3000	2,093,215
Numbers of theory tests 2020/21	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3000	2,093,215
Numbers of theory tests 2021/22	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3000	2,093,215
Numbers of theory tests 2022/23	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3000	2,093,215
Numbers of theory tests 2023/24	1,820,000	15	70,000	58,000	52,000	40,000	6,700	6,500	19,000	18,000	3,000	2,093,215
Numbers of theory tests 2024/25	910,000	8	35,000	29,000	26,000	20,000	3,350	3,250	9,500	9,000	1500	1,046,608
	18,160,000	150	696,000	577,500	517,500	396,000	67,000	65,000	190,000	180,000	32,000	20,881,150

1. Figures cover 11 financial years as policy is introduced midway through 2014/15 financial year.

**Table 3: Monetised Costs to DVSA of the Fee Changes to Theory Tests (£2014 prices)<sup>1</sup>**

	Car theory test	Abridged theory test	Motorcycle theory test	Lorry and bus licence acquisition multiple choice questions	Lorry and bus licence acquisition Hazard Perception Test (HPT)	Certificate of Professional Competence (CPC) theory test	Delegated car and motorcycle theory test	Delegated CPC theory test	Delegated HPT	Delegated multiple choice questions	Approved Driving Instructor (ADI) theory test
Current fee	£31.00	£24.00	£31.00	£35.00	£15.00	£30.00	£18.50	£30.00	£9.00	£20.00	£90.00
<b>Current fee x tests (10 years)</b>	<b>£515,930,086</b>	<b>£3,300</b>	<b>£19,767,721</b>	<b>£18,520,544</b>	<b>£7,112,412</b>	<b>£10,880,410</b>	<b>£1,136,159</b>	<b>£1,787,423</b>	<b>£1,567,432</b>	<b>£3,299,857</b>	<b>£2,653,563</b>
New fee per test - October 2014	£25.00	£19.00	£25.00	£28.00	£12.00	£24.00	£15.00	£27.00	£9.00	£12.00	£83.00
New fee per test - October 2015	£23.00	£18.00	£23.00	£26.00	£11.00	£23.00	£15.00	£26.00	£9.00	£12.00	£81.00
New fee x tests 2014/15	£22,250,000	£143	£825,000	£770,000	£294,000	£432,000	£50,250	£87,750	£85,500	£108,000	£207,500
New fee x tests 2015/16	£42,561,576	£273	£1,607,882	£1,516,256	£577,833	£879,803	£99,015	£169,704	£168,473	£212,808	£323,153
New fee x tests 2016/17	£40,512,160	£261	£1,558,160	£1,459,444	£553,582	£890,377	£97,264	£163,558	£165,494	£209,045	£235,176
New fee x tests 2017/18	£39,834,966	£257	£1,532,114	£1,435,048	£544,329	£875,494	£95,638	£160,824	£162,728	£205,551	£231,245
New fee x tests 2018/19	£39,169,091	£253	£1,506,504	£1,411,060	£535,230	£860,859	£94,040	£158,136	£160,008	£202,115	£227,379
New fee x tests 2019/20	£38,401,070	£248	£1,476,964	£1,383,393	£524,735	£843,980	£92,196	£155,035	£156,870	£198,152	£222,921
New fee x tests 2020/21	£37,648,108	£243	£1,448,004	£1,356,267	£514,446	£827,431	£90,388	£151,995	£153,794	£194,266	£218,550
New fee x tests 2021/22	£36,909,910	£238	£1,419,612	£1,329,674	£504,359	£811,207	£88,616	£149,015	£150,779	£190,457	£214,264
New fee x tests 2022/23	£36,186,186	£233	£1,391,776	£1,303,602	£494,470	£795,301	£86,878	£146,093	£147,822	£186,723	£210,063
New fee x tests 2023/24	£35,476,653	£229	£1,364,487	£1,278,041	£484,774	£779,707	£85,174	£143,229	£144,924	£183,062	£205,944
New fee x tests 2024/25	£17,390,516	£112	£668,866	£626,491	£237,634	£382,209	£41,752	£70,210	£71,041	£89,736	£100,953
<b>fees x tests 2014/15 - 2024/25</b>	<b>£386,340,237</b>	<b>£2,490</b>	<b>£14,799,369</b>	<b>£13,869,276</b>	<b>£5,265,392</b>	<b>£8,378,367</b>	<b>£921,210</b>	<b>£1,555,552</b>	<b>£1,567,432</b>	<b>£1,979,914</b>	<b>£2,397,147</b>
<b>Reduction in income 10 full years</b>	<b>£129,589,849</b>	<b>£810</b>	<b>£4,968,352</b>	<b>£4,651,268</b>	<b>£1,847,020</b>	<b>£2,502,043</b>	<b>£214,949</b>	<b>£231,871</b>	<b>£0</b>	<b>£1,319,943</b>	<b>£256,415</b>
<b>Total reduction in income</b>	<b>£145,582,521</b>										

1. Figures cover 11 financial years as policy is introduced midway through 2014/15 financial year.

Non-monetised costs to public sector

15. This proposal affects the public sector financially only. We have identified no non-monetised costs.

Monetised benefits to drivers

16. Drivers experience benefits from reduced fees. These exactly offset the costs to DVSA in table 3 and total £145million across the appraisal period.

Non-monetised benefits to drivers

17. The only effect of this proposal is a financial one. We have not identified any non-monetised benefits to drivers as a result of the change.

Monetised benefits to business

18. The proposals affect individual drivers and the public sector. There is no burden on business.

Non-monetised benefits to business

19. This proposal is a monetised one only, which does not have any non-monetised effect on business.

Monetised benefits to public sector

20. There are no monetised benefits to the public sector.

Non-monetised benefits to public sector

21. There are no non-monetised benefits to the public sector.

**Net Present Value for Option 2**

Table 4: Net Present Value Calculation for Fee Reduction (£m, 2014 prices) <sup>1</sup>												
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total Present Value
Benefits to Theory Test Takers From Fee Reduction	6.02	13.50	14.77	14.03	13.33	12.63	11.96	11.33	10.73	10.17	4.82	123.30
Costs to DVLA From Fee Reduction	6.02	13.50	14.77	14.03	13.33	12.63	11.96	11.33	10.73	10.17	4.82	123.30
<b>Net</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0</b>

Annual discount rate of 3.5% applied to estimates in line with Green Book advice.

22. Table 4 shows the present value of costs and benefits to consumers and DVSA from the fee reductions across the appraisal period. The main impact of this change is for a redistribution of income from DVSA to consumers. It can be seen that the net benefit for each year is zero and **NPV = 0**.

**Risks and assumptions;**

23. The forecast numbers of tests are based on statistical models developed by the In House Analytical Consultancy within the Department for Transport using historical data and factors such as GDP and changes in demographic age groups. The models give forecasts for the current year and up to three business years ahead. After that, a flat profile has been used.

24. It is assumed that the number of theory and practical driving tests will remain at planned levels throughout the ten year period analysed by this IA. The main risk is that this demand for tests may fluctuate in response to economic and social factors which cannot be known at present. We do not believe that the size of the fee changes proposed is significant enough to affect the number of tests taken.

## **Business Net Present Value and Equivalent Annual Net Cost to Business (EANBC)**

25. This proposal does not impact on business, consequently:

Business Net Present Value = 0.

EANBC = 0

### **One-In, Two-Out Status**

26. No costs have been identified to business from proposals in this IA. Consequently it is Out of Scope of One-In, Two-Out. The main effects will be on DVSA and individual candidates for driving tests.

### **Equality Analysis**

27. We have considered the effect of these proposals on equality in various areas. As indicated below, no burdens on any groups have been identified.

#### **Disability**

28. We have been unable to identify any effect on those with disabilities from the proposals. The fee changes are beneficial to candidates and do not adversely affect the ability of an individual with a disability to take a test.

#### **Race**

29. We have not identified any effect on those from different racial groups from this change. The fee changes will be beneficial to all groups.

#### **Gender**

30. We have not identified any effect on different gender groups from this change. The fee reductions will apply to all irrespective of gender.

#### **Gender reassignment**

31. There is no effect on gender reassignment from the change. All candidates will pay the same fee, irrespective of reassignment of gender. We have identified no reason why there should be an indirect effect on particular groups as a result of the changes.

#### **Pregnancy and maternity**

32. The fee changes are not expected to have any effect on candidates in pregnancy.

#### **Sexual orientation**

33. There will be no effect arising from sexual orientation. All candidates pay the same for a driving test, irrespective of sexual orientation.

#### **Age**

34. It is not expected that the fee changes will have any overall effect as a result of the age of the candidate. The main demographic for DVSA tests is the younger age group, as you cannot take a test until you are 17. Some tests are, however, taken by those who are significantly older. The reduction in fees for theory tests will help those who are starting out on the driving test process.

#### **Religion or belief**

35. The fee changes will apply to all candidates and will have no effect as a result of a candidate's religion or belief. We have not identified any indirect effects on any particular religious group as a result of the changes.

#### **Small Firms Impact Test**

36. We have identified no cost for small businesses as a result of the fee changes.

#### **Competition Assessment**

37. The change will affect all candidates equally. It is not expected that there will be any effect on the

ability of small businesses to be competitive.

### **Greenhouse Gases Impact Test**

38. There is no effect on greenhouse gases as a result of the changes.

### **Wider Environmental Impact**

39. We have identified no effect on the wider environment as a result of the changes.

### **Health Impact Assessment**

40. We have not identified any effect on health issues, affecting drivers, business or wider society, as a result of the changes.

### **Human Rights Impact**

41. We have not identified any effect on individuals' human rights as a result of the proposals.

### **Justice Impact Test**

42. We have not identified any effect on justice, or an individual's access to justice, as a result of the proposals.

### **Rural Proofing Toolkit**

43. We have identified no adverse effect for those located in rural areas. The fee changes apply to everyone taking driving tests equally, irrespective of where the test is located.

### **Sustainable Development**

44. We have identified no adverse effect on sustainable development from the changes. None of the changes are such as to undermine the long term demand for tests or ability to gain licences.

### **Post Implementation Review**

45. The period covered by this IA is ten years. We intend, during that time, to keep our fee levels under review on an ongoing basis. As such, the fees contained in this IA will be reviewed as a matter of course along with fees charged for other services.