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

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

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

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

What are the policy objectives and the intended effects?

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

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

We have compared all options to the 'do nothing' case (i.e. maintaining existing differentials).
 Option 1: Equalise present standard and restricted PSV operator licence application fees in 1 step in 1 year.
 Option 2: Equalise present standard and restricted PSV operator licence application fees in 3 steps over 3 years.
 Our preferred option is Option 1 because relating fees to costs is achieved more quickly. Applying for a licence is a one-off event in setting up a new business or for existing businesses expanding into a new area. It represents only a tiny proportion of the cost of operating the business if the application is successful. Phasing the change over 3 steps is likely to result in additional costs to make 3 changes to regulations. It also delays the benefit to new businesses seeking standard licences. Together these factors outweigh possible benefits of allowing businesses time to adjust to the new fee levels.

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

| | | | | | |
|--|---------------------|-----------------------|-----------------------|----------------------|---------------------------|
| Does implementation go beyond minimum EU requirements? | | | N/A | | |
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base. | Micro Yes | < 20 Yes | Small Yes | Medium Yes | Large Yes |
| What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent) | | | Traded: N/A | | Non-traded: N/A |

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

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

Summary: Analysis & Evidence

Policy Option 1

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

FULL ECONOMIC ASSESSMENT

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

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

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

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

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

There are no non-monetised costs of this proposal.

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

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

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

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

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

| Key assumptions/sensitivities/risks | Discount rate (%) |
|--|-------------------|
| 1.) The key assumptions throughout the appraisal period: the total number of licence applications forecast for 2011/12 will be maintained; the ratio of standard to restricted licence applications will be consistent with the licences currently in issue (59% / 41%). 2.) The estimates of the monetised costs and benefits are sensitive to the assumptions that have been made in this IA and are therefore uncertain - e.g. the equalised fee is sensitive to the assumption on the ratio of licences. | 3.5 |

BUSINESS ASSESSMENT (Option 1)

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

Summary: Analysis & Evidence

Policy Option 2

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

FULL ECONOMIC ASSESSMENT

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

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

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

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

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

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

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

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

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

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

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

| Key assumptions/sensitivities/risks | Discount rate (%) |
|--|-------------------|
| 1.) The key assumptions throughout the appraisal period: the total number of licence applications forecast for 2011/12 will be maintained; the ratio of standard to restricted licence applications will be consistent with the licences currently in issue (59% / 41%). 2.) The estimates of the monetised costs and benefits are sensitive to the assumptions that have been made in this IA and are therefore uncertain - e.g. the equalised fee is sensitive to the assumption on the ratio of licences. | 3.5 |

BUSINESS ASSESSMENT (Option 2)

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

Evidence Base (for summary sheets)

References

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

GENERAL ISSUES

Overall context

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

Rationale for Government Intervention

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

- *restricted* licence holders can operate no more than 2 vehicles; there are also restrictions on the size of their vehicles; and there may also be restrictions on the nature of their business (i.e. their prime business is not transport of passengers e.g. hotels or car park operators who operate 1 or 2 courtesy buses);
 - *standard* licence holders have no such restrictions but fleet sizes vary from one or two vehicles to many hundreds and may cover national or both national and international operations;
 - there are also special *restricted* licences to enable operators of licensed taxis and private hire vehicles to provide local services.
5. The average number of vehicles used by the holders of PSV licences is less than 10. Given that the industry includes many large fleets, the average fleet size means that many operators with *standard* licences have fleets of similar or only slightly larger size than their counterparts eligible for *restricted* licences
 6. Currently fees for “*restricted*” PSV operator licence applications are lower than for “*standard*” licences. The only significant difference in the requirements is that applicants for *restricted* PSV licences do not require a transport manager for the purpose of demonstrating professional competence. So whilst time is saved processing “*restricted*” licences by not having to check transport manager details and qualifications, additional checks have to be made to provide assurance that the applicant is not trying to bypass the 2 vehicle restriction by seeking separate licences for what is in fact the same business. Thus, VOSA experience shows that there is very little difference in typical processing times for both categories. VOSA has also found that variations in the amount of work needed to process applications has more to do with the manner in which evidence of compliance is presented than fleet size. An application for a licence to operate one or two vehicles where evidence of compliance is unclear tends to take longer to process than one to operate larger numbers of vehicles where evidence of compliance is clear.
 7. Application fees for special *restricted* licences are lower still, but since these operators are already licensed by Local Authorities to operate taxis or private hire cars, the work to determine their applications is proportionate to the fees charged. They are therefore not included in the change covered by this IA.
 8. The fees concerned are set in legislation and paid to a Government Trading Fund, so fees can only be changed by Government action.

Policy objective

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

Options Considered

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

Costs and benefits of each option

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

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

Micro-business and start-up moratorium

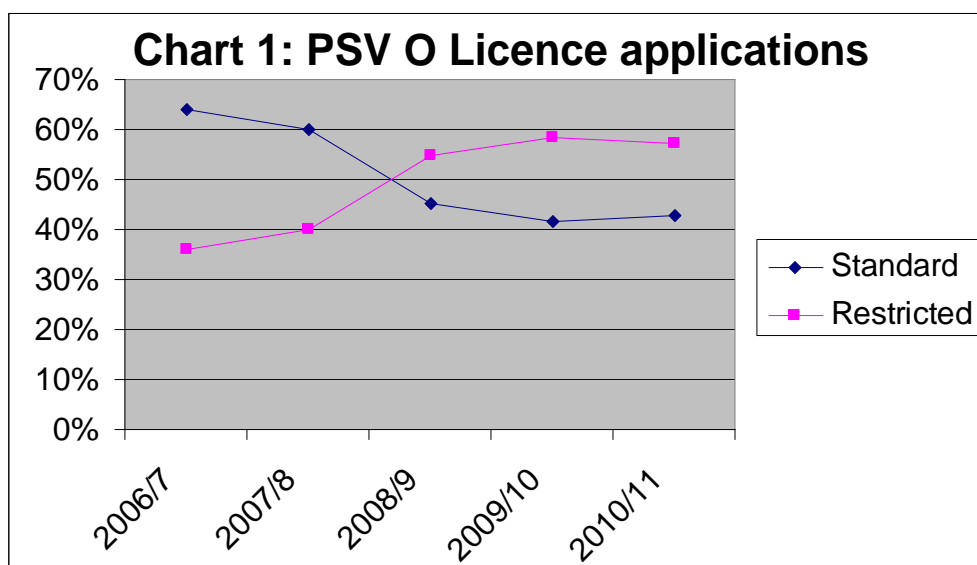
13. This measure alters the amount of fees but does not change the level of regulation and as such is out of scope of OIOO. It is therefore out of scope of the moratorium.

Overview and calculation of equalised fee

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

Table 1: PSV O licence applications

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



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

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

17. For the purposes of calculating overall costs and benefits, it has been assumed that the predicted volume of applications would be maintained in all years in the appraisal period at the average levels over the last 5 years for which figures were available at the time of writing. An average has been used because there is limited evidence from which to forecast application volumes. This seems a reasonable assumption given that traffic forecasts from the National Transport Model (<http://www.dft.gov.uk/publications/road-transport-forecast-dft-ntm-results-2009>) suggest that PSV mileage will remain relatively constant over the appraisal period. It is further assumed that Option 1 and Option 2 would not have an impact on the total number of applications. However, because the adjustments needed to achieve fee equalisation are dependent on ratio of licence types rather than the total volume the effect on individual licence applicants is independent of volumes.
18. Because of the great variety of ways in which PSVs are used and the lack of public domain information on typical operating costs, it has not proved practicable to model the effect of these fee changes as a proportion of overall operating costs. But, although this change means a significant step increase in the fees for restricted licence applications, it represents only a very small proportion of the costs of owning, maintenance, fuel and drivers which successful applicants will have to bear.
19. Table 2 below shows the calculation of the estimated equalised fee.

Table 2: Calculation of equalised fee

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

Sensitivity

20. The major sensitivities which could affect the above calculation are a) the assumptions on the mix of licence types used to calculate the equalised fee and b) whether the altered fee structure might affect that mix.
21. Changes in total volumes compared to assumptions would lead to proportionate changes in workload and income for VOSA and have to be part of the normal management process for any demand led service. Although such changes would mean a proportionate changes in the valuation of both costs and benefits quoted in the Summary: Analysis & Evidence sheets they would not alter the Net Benefit figures quoted. Total volume changes have therefore not been treated as a significant sensitivity.

Effect of assumptions on the mix of licences

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

Table 3: Volume mix sensitivity analysis

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

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

Effect of fee change on mix of licences

24. The type of licence which is appropriate is determined by the number and type of vehicles proposed to be operated and the nature of the main occupation of the applicant (see paragraph 4). At first glance it might be thought that equalisation of application fee might make some applicants consider whether to apply for a standard rather than a restricted licence. However, there are some other differences in the requirements for applying for standard and restricted licences. Firstly, to obtain a standard licence, the applicant needs to have a professionally qualified transport manager. This requirement is waived for restricted licences. Secondly, while applicants for both types of licence are required to show that they have adequate finance available to operate their vehicles, the minimum finance necessary is lower for restricted licences. It is therefore not considered likely that application fee equalisation would have any significant effect on demand for either licence type.
25. There could also be a sensitivity in respect of timing of applications if option 2 were to be adopted. Applications for restricted licences might be brought forward (to minimise the effect of fee increases) and those for standard licences delayed (to maximise the benefit of reducing fees). Given that the maximum total change in fees is less than £50 (37 litres of diesel say 250 miles), which is a tiny proportion of even the fuel costs let alone staff costs for the businesses affected. It seems highly unlikely that this would influence the timing of applications.

Costs and Benefits of Option 1

26. Under Option 1, the application fee for a *restricted* PSV operator licence and the application fee for a *standard* PSV operator licence would be equalised within a single year. The impact of Option 1 would be to increase the application fee for a *restricted* PSV operator licence and reduce the application fee for a *standard* PSV operator licence.
27. On the basis of the above calculations, it is estimated that the application fee for a *restricted* PSV operator licence would **rise** by around £48. The rise in this fee represents a transfer from business to VOSA. As noted above, it is assumed that there would be around 440 applications for *restricted* licence in each year of the appraisal period. The total estimated costs to businesses applying for *standard* licences and total estimated benefits to VOSA are therefore both estimated at around £21,000 per year in each year of the appraisal period. However, for individual businesses application for a new licence is normally a one-off cost which does not recur.
28. In addition, on the basis of the above calculations, it is estimated that the application fee for a *standard* PSV operator licence would **fall** by around £32. This is less than the estimated rise in the application fee for a *restricted* PSV operator licence because the income that would be generated from the rise in *restricted* licence fees has to be spread over a larger number of *standard* licence applications. The fall in this fee represents a transfer from VOSA to business. As noted above, it is assumed that there would be around 660 applications for *standard* licences in each year of the appraisal period. The total estimated benefits to businesses applying for *standard* licences and total estimated costs to VOSA are therefore both estimated at around £21,000 per year in each year of the appraisal period. Again, for individual businesses application for a new licence is normally a one-off cost which does not recur.
29. However, it should be noted that the above estimates are uncertain. Firstly, it should be noted that both the estimated increase in the application fee for a *restricted* PSV operator licence and the estimated decrease in the application fee for a *standard* PSV operator licence are sensitive to the assumptions made when estimating the equalised fee, particularly the assumption regarding the ratio of *standard* to *restricted* licences under the Do Nothing scenario. Secondly, it should be noted that the estimates of the benefits and costs are also sensitive to a) the assumptions made when estimating the equalised fee; and b) the assumptions about the number of applications in the Do Nothing scenario and Option 1.
30. For the purposes of this impact assessment, the above estimates assume that this change had been introduced at the start of the 2011/12 financial year. At the time of updating this IA the introduction date remained unclear. The effect of slippage of introduction date alters the time at which the impact is realised but does not alter the cash amounts involved. It has been assumed that in the case of option 2 that the 2nd and final steps will not take place till the beginning of 2012/13 and 2013/14 respectively.
31. The above change is the effect of fee restructuring alone. The PSV operator licence application fees may also be affected by proposed changes to fund a National Register (NR) of operators and their

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

Costs and Benefits of Option 2

32. The impact of Option 2 would be to increase the application fee for a *restricted* PSV operator licence and reduce the application fee for a *standard* PSV operator licence at each fee review for 3 reviews. As noted in paragraph 30, the implementation date of this review remains unclear. To enable the effects of the stepped approach to be modelled, it has been assumed that steps 2 and 3 will take place in financial years 2013/14 and 2014/15 respectively.
33. Option 2 would reduce the impact on individual applicants within the first 3 reviews after change by staging the restructure over 3 reviews. However, it does mean that costs to applicants for *standard* licences and *restricted* licences would take longer to reach their correct level than would be the case with Option 1. In considering this option, it must be remembered that the application fee is a one-off payment to apply for a new licence. That licence continues for an indefinite period unless it is surrendered by the licensee or revoked by the Traffic Commissioner because of unacceptable performance.
34. On the basis of the above calculations, it is estimated that the application fee for a *restricted* licence would **rise** in 3 steps of around £16; giving increases from the 2010/11 level of around £16, £32 and £48 in 2011/13; 2013/14 and 2014/15 and each subsequent year of the appraisal period respectively. The rise in this fee represents a transfer from business to VOSA. As noted above, it is assumed that there would be around 440 applications for *restricted* licence in each year of the appraisal period. The total estimated costs to businesses applying for *standard* licences and total estimated benefits to VOSA are therefore both estimated at around £7,000 in 2011/13, around £14,000 in 2013/14 and around £21,000 per year from 2014/15.
35. In addition, on the basis of the above calculations, it is estimated that the application fee for a *standard* licence would **fall** in 3 steps of around £11; giving decreases from the 2010/11 level of around £11, £21 and £32 in 2011/13; 2013/14 and 2014/15 and each subsequent year of the appraisal period respectively. The fall in this fee represents a transfer from VOSA to business. As noted above, it is assumed that there would be around 660 applications for *standard* licences in each year of the appraisal period. The total estimated benefits to businesses applying for *standard* licences and total estimated costs to VOSA are therefore both estimated at around £7,000 in 2011/13, around £14,000 in 2013/14 and around £21,000 per year from 2014/15.
36. However, it should be noted that the above estimates are uncertain for the reasons discussed in paragraph 29 of this impact assessment.
37. Introducing the change in 3 steps may also mean that VOSA would incur additional costs to change the legislation in which the fees are set. VOSA normally reviews its fee levels annually. The estimated size of each step quoted in paragraph 34 and 35 is at 2011 prices. There is no certainty yet whether fees will need to change in the 2 succeeding steps because of changes to VOSA’s costs or whether these or other fees within the same Statutory Instrument (SI) will be subject to further restructuring. It is therefore not sensible to include steps 2 and 3 in the same SI. If any other fees in the same SIs need to be amended at the same time as steps 2 and 3, the additional cost of the “equalisation” adjustment would be negligible. However, if no such changes were being made and SI(S) had to be made to implement steps 2 and/or 3, VOSA will incur additional costs to draft, clear, print and lay the additional SI(s) in Parliament. The cost of preparing each SI is estimated at £7,000.
38. For the purposes of this impact assessment, the above estimates assume that this change had been introduced at the start of the 2011/12 financial year. At the time of updating this IA the introduction date remained unclear. The effect of slippage of introduction date alters the time at which the impact is realised but does not alter the cash amounts involved.

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

Consultation results, preferred option and implementation

40. VOSA conducted a public written consultation on this and other proposed changes to the fees it charges. Details of how the overall fee package interacts with these proposals are given under the heading “other proposed changes in fees not included in this IA”.
41. All eight respondents to the public consultation on the fee proposals who expressed a view on PSV operator licence fee equalisation supported the proposed equalisation. Half supported the Option 2 staged approach –explanatory comments were about allowing applicants to plan for the change. One of those who did not support Option 2 mentioned that the staged approach might incur additional administrative costs.
42. In considering which option to adopt, VOSA took account of the following main factors:
- The fees being equalised are a one-off cost when applying for a new operator licence. Once granted, a licence last for an indefinite period until either it is voluntarily surrendered by the operator or it is removed by the Traffic Commissioner as a result of breaches to the conditions of the licence.
 - Although not subject to research, we do not believe that applicants consider the level of fees a factor in their decision whether to apply for a licence or in the timing of that application.
 - The cost of a licence application represents only a tiny proportion of the cost of operating even one PSV if the application is successful – less than the cost of one or two tanks of diesel. The increase for applicants for restricted licences is about the retail cost in August 2011 of 35 litres of diesel.
 - Because VOSA normally reviews its fees on an annual cycle, it is as yet unclear what other factors might affect operator licence fees in steps 2 and 3 of the transition. Each stage would therefore require separate amendment regulations to implement. If it turned out that PSV operator licence fee changes were necessary for other reasons in steps 2 and 3 of the transition, then including the effect of steps 2 and 3 of this change would add little to the cost of obtaining the amendment regulations. However, if no other changes were being made, the cost of producing and implementing the necessary amendment regulations is estimated as being in the order of £14,000.
 - On balance and in view of the low additional cost to those paying more, the savings to those paying less and the one-off nature of the fee for each applicant, OPTION 1 remains our preferred option.

Other proposed changes in fees not included in this IA

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

Table 4: Fee to IA relationships

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

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

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

Specific Impact Tests

Equality assessment

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

Competition assessment

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

Small firms impact test

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

Greenhouse gas impact assessment

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

Wider environmental impact assessment

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

Health and wellbeing impact assessment

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

Human rights

52. The proposals would have no human rights impact.

Justice impact test

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

Rural proofing

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

Sustainable development

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

