

<b>Title:</b> Lorry, bus and coach examination fees - location differentiation <b>IA No:</b> DfT00074 <b>Lead department or agency:</b> Vehicle and Operator Services Agency - VOSA <b>Other departments or agencies:</b> Driver and Vehicle Agency of the Northern Ireland DoE - DVA	Impact Assessment (IA)	
	<b>Date:</b> 16/11/2011	
	<b>Stage:</b> Final	
	<b>Source of intervention:</b> Domestic	
	<b>Type of measure:</b> Secondary legislation	
	<b>Contact for enquiries:</b> john.maclellan@vosa.gsi.gov.uk	
<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b> 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, Measure qualifies as One-Out?	
£0m	£0m	£0m	No	NA

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

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

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

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

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

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

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

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

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

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

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

Signed by the responsible Minister:

Mike Penning

Date: 07/02/2012

# Summary: Analysis & Evidence

## Policy Option 1

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

### FULL ECONOMIC ASSESSMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Key assumptions/sensitivities/risks

Discount rate (%)

3.5

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

### BUSINESS ASSESSMENT (Option 1)

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

# Summary: Analysis & Evidence

## Policy Option 2

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

### FULL ECONOMIC ASSESSMENT

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

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

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

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

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

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

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

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

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

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

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

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

#### Key assumptions/sensitivities/risks

Discount rate (%)

3.5

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

### BUSINESS ASSESSMENT (Option 2)

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

# Evidence Base (for summary sheets)

## References

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

## General issues

### The purpose of this IA

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

### Fees covered by this Impact Assessment

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

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

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

## Geographic Coverage

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

## Overview

### The customers

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

### Analysis of costs

5. The total annual cost of providing testing services in 2011/12 and 2012/13 are estimated at £54.6 million. This is shown in row A of table 2 (paragraph 64) and the final row of table 1 (paragraph 58).
6. This figure is taken from forecasts prepared by VOSA's Finance Directorate using a combination of historic costs, planned cost changes, assumptions on overall demand volume changes and assumptions on the split of test demand between VOSA and non-VOSA facilities. The demand assumptions are produced in conjunction with the Corporate Planning and Scheme Management teams and use a combination of historic data and market intelligence (largely soft intelligence) to project future demand. The assumptions on split of tests between VOSA and non-VOSA are made in conjunction with the Testing Transformation team based on historic data and market validation work carried out to determine the potential growth in availability of non-VOSA testing facilities and for closure of VOSA facilities.
7. From the scheme accounts, we have identified that the cost of the VOSA estate used to provide testing facilities is £8.5m per year. The longer term plan is to reduce that estate costs. The majority of that will come from disposal of VOSA facilities once they have been closed. There is, however, a significant lag before this benefit can be realised: firstly because VOSA facilities are not closed until there is a reasonable expectation that sufficient non-VOSA capacity will be available in the catchment area and secondly because of the time taken post-closure to relocate other services, market the site and complete the sale for owned sites or to terminate the lease of leased sites. Costs associated with relocation of services on sites to be vacated are also a relevant factor. Because of the level of uncertainty of both the timing and actual costs shed with any particular site, we have assumed that there will be no significant reduction in testing estate costs before the end of 2012/13. We have therefore treated the estate cost as a fixed cost during the period being considered.
8. A second cost element which we have tried to identify arises because sending testing staff out to non-VOSA sites is less efficient for VOSA than having vehicles brought to VOSA sites at which staff are based. This is because of travelling time and cost; and in some cases, because of less efficiently

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

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

## **Full cost recovery**

10. Table 1 (paragraph 58) that under Do Nothing (column 1) those using non-VOSA test facilities would be contributing £3.1m towards the cost of providing VOSA facilities which they do not use – i.e. we would be over recovering the costs of servicing this customer group by £3.1m. Those using VOSA test facilities would only be contributing £5.4m towards the £8.5m cost of providing the VOSA test facilities the balance being subsidised by those using non-VOSA facilities – i.e. we would be under recovering from this group by £3.1m.
11. Option 1 reduces this cross-subsidy by transferring £1m from the fees paid by those using non-VOSA facilities to those using VOSA facilities. The size of the transfer has been limited in light of concerns expressed by respondents to the consultation exercise to achieve a 4% increase in fees for customers using VOSA test facilities to limit the effect on businesses who do not yet have non-VOSA facilities available to them.
12. Option 2 removes this cross-subsidy in a single step. This would mean that the VOSA fees would have to rise by 11.6%. Option 2 also assumes that the additional costs of supporting non-VOSA facilities materialises at the rate assumed by the TTBC – so limiting the reduction in non-VOSA fees to 4.8%.
13. The rate of increase in VOSA fees necessary to move to full cost recovery in a single step is considered too much of a disruption and shock to businesses struggling to cope with other cost pressures at this time and to allow them time to prepare for further changes. Option 1 is therefore being recommended as a further substantial step in the direction full cost recovery from each of the customer groups whilst maintaining the overall full cost recovery of the HGV and PSV annual test schemes assuming that the additional costs of supporting testing at non-VOSA facilities continues not to materialise to any substantial degree by the end of 2012/13. Further moves in that direction are being planned for 2013/14 and beyond.

## **Background**

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

## **History**

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

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

16. Statutory annual testing of PSVs, which had been subject to a less formal regime since the 1930s, started in the early 1980s. PSVs were also tested by VOSA staff but tests were carried out at a mix of Government HGV test stations and test facilities provided by 3<sup>rd</sup> parties – largely PSV operators, which VOSA accepted as being suitable (i.e. non-VOSA test facilities referred to as Designated Premises or DPs).
17. From the early 1990s, VOSA started offering HGVs the option of tests at suitable non-VOSA test facilities, some of which were repairers rather than operators of vehicles. Also from that time, VOSA started making an additional charge for testing at non-VOSA facilities. The additional charge was to cover the cost of travel and lost time from sending staff out to these non-VOSA facilities.
18. Those providing non-VOSA test facilities were free to present only their own vehicles for test, or to allow others to present vehicles at their facilities. The relationship between the facility provider and VOSA was informal in that VOSA gave no guarantees about service provision but had no guarantees that their staff would be fully utilised. The organisation owning the premises could charge other presenters for the use of the test facility in addition to the statutory test fee payable to VOSA. This charge could be in the form of a fee for the use of the facilities (referred to as a “pit fee”) or could be included as an overhead in charges for other service which the facility provider was supplying to their customers.
19. In 1996 an EC Directive brought in EU wide requirements for the scope of periodic technical inspections of HGVs and PSVs, which were largely in line with the standards already in place in GB. Since then the GB and EU standards have further converged and it is anticipated that the standards will have fully converged early in 2012. The EU requirements leave detailed arrangements for organisation of testing and charging levels to individual Member States – thus, in respect of fee levels, there are no EU requirements.

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

20. Test fee income is not used solely to cover the cost of testing. Part of fee for full annual HGV and PSV tests, but not partial retests, is used to cover the costs of encouraging and enforcing compliance. This is referred to as the “enforcement” element of the fee. In the case of PSVs, an additional small element (the “O licence” element) of the fee for full annual tests covers the ongoing costs of maintaining operator’s licences. Fees for HGV notifiable alterations, Reduced Pollution Certificates and Low Emission Certificates have neither enforcement nor O licence elements.
21. The changes covered by this Impact Assessment affect only the “testing” element of the fees concerned and figures quoted cover both HGVs and PSVs – the enforcement and O licence elements of test fees are not being changed. Thus, a 4% increase in the testing element of the annual test of a 2 axle HGV means that the fee charged for the test, including the enforcement element only increases by 3.2% under option 1. The fee tables at Annex A show all elements of each fee as well as the overall fee to be charged.

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

22. Fees for appeals against refusal to issue an HGV or PSV test certificate have been treated in the same way as tests at VOSA since most of the small number of appeal tests are carried out at VOSA facilities and the fee is refunded if there were reasonable grounds for the appeal.
23. Fees for HGV notifiable alterations will be treated in the same way as fees at VOSA. This is because the fees are paid at the time of application and no decision has been taken at that time as to whether a physical inspection will be necessary. Where physical inspection is needed, most are carried out at VOSA facilities.
24. Applications for Reduced Pollution Certificates (RPC) and Low Emission Certificates (LEC) may, depending on circumstances, be determined on the basis on evidence supplied or may require a physical inspection of the vehicle. Where needed, physical inspections are carried out in GB at both VOSA and non-VOSA sites. Physical inspections often at carried out at the same time as annual tests and will therefore be subject to the same differentiation as annual tests (i.e. -4% or +4%

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

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

### **Reduced Pollution Certificate examinations in Northern Ireland**

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

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

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

### **Longer term changes in HGV and PSV test fees**

28. Following a review in 2008 of how statutory (annual) testing of HGVs and PSVs was delivered, the Minister (Jim Fitzpatrick) announced to the Commons on 3 July (reference 3) that VOSA had been tasked with providing tests at locations which are more convenient to customers. Delivery of this is referred to as the Testing Transformation Programme. To reduce the costs to the transport industry of annual testing, VOSA is planning to carry out more tests at non-VOSA test facilities located, primarily, where vehicles are maintained; and to reduce its own testing estate as alternative provision becomes available.
29. The decision to encourage more tests at locations where, or nearer to where, vehicles are maintained was based on a Business Case developed in accordance with Treasury investment appraisal principles set out in The Green Book - Appraisal and Evaluation in Central Government. The business case showed a net benefit to customers of around £8m in 2011/12 rising to around £43m per annum by 2020/21. A major contribution to this benefit comes from reduced vehicle downtime and reduced costs for vehicle presenter’s staff time and vehicle mileage to bring vehicles to VOSA test locations.
30. The option of testing at non-VOSA locations nearer to vehicle locations was not available to all since the overall capacity on those facilities was insufficient to meet demand. The geographic coverage was also variable over the country so whilst in some areas the capacity of non-VOSA facilities was near to sufficient; in others no non-VOSA facilities were available. There were also issues with some vehicle presenters looking only at the visible cost of test fees or sticking to the traditional ‘bring the vehicle to the tester’ approach; rather than considering the overall cost of presenting the vehicle for test when deciding where to have their tests carried out.

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<sup>1</sup> Published by the Office of National Statistics at <http://www.statistics.gov.uk/instantfigures.asp>



31. Additionally, had the previous service delivery model been continued, VOSA's testing estate costs would have increased dramatically to fund an estimated £70m of estate developments over the next few years. This is because VOSA's current testing estate was largely built or adapted in the late 1960s. Whilst test equipment has been replaced regularly, the fabric of many buildings is now worn out; some test stations are in locations which are not convenient for the road network as it has developed and/or are in areas which are now more residential, leading to environmental issues.
32. In addition to the above benefits, the new delivery model is seen as an opportunity to roll back Government provision of test facilities and create new opportunities for the private sector whilst maintaining the independence and integrity of the inspectors by keeping them within a Government Agency.
33. The aim is to achieve an ordered transition from public sector provision of testing facilities to private sector provision whilst maintaining accessibility of testing and not unduly disadvantaging those who do not yet have a realistic choice between VOSA and non-VOSA facilities. The pace of that change will depend on a number of factors, many of which are outside VOSA's control.

### **The levers to achieve change**

34. There are a number of levers which VOSA can use to encourage the development of the market. The main levers are:
- increasing the number of non-VOSA test facilities to provide more locations and encourage a competitive market in the provision of such facilities giving customers greater choice by, amongst other things, replacing the informal arrangements with DPs by a formal contract with new Authorised Testing Facilities (ATFs) setting out the responsibilities of VOSA and the ATF;
  - helping customers to understand that the test fee is only part of the full cost of testing; and
  - reducing, by closure and/or consolidation, the availability of VOSA facilities as the market in non-VOSA facilities develops;
  - progressively altering differentials between the fees charged by VOSA for testing at VOSA and non-VOSA facilities.
35. However, use of those levers needs to balance their effects in areas where development of a market in test facility provision is reasonably advanced and VOSA can withdraw from the market in the near future, with ensuring that those customers in areas in which there is not yet a significant market are not unduly disadvantaged. VOSA also needs to consider that there may be areas in which there may never be a market. For these reasons, the levers are being used progressively.
36. The changes dealt with in this IA are aimed at ensuring that the single step in the progressive use of the fee differential lever ensures full cost recovery is achieved for this step.

### **The fee differential lever**

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

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

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

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

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

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

## Problem under consideration

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

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

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

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

## Rationale for intervention

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

## Policy objective

44. The fee changes described in this IA are one step in one of several levers aimed at ensuring full cost recovery:
- whilst changing to a fairer distribution of those costs; and
  - limiting the rate of increase of costs for those using VOSA test facilities.

## The options considered

45. The changes covered by this IA are a further step to progressively apply the differentiation lever by adjusting the balance of fees between different customers depending on the service delivery method they choose.
46. A public written consultation has been conducted in respect of the package of fee changes proposed by VOSA which includes the effects discussed in this and 2 other IAs (references 5 and 6). Responses relating to this IA are discussed more fully in paragraph 65 - 68 below.
47. Compared to "do nothing" (i.e. do not introduce differential fees at this time) we have considered the following options for fees covered in this Impact Assessment:
- OPTION 1 – partial location cost differentiation in 2011/12 - 2012/13 – i.e. restructure fees to move towards full differentiation but limiting to 4% the increase of those fees which will rise.
  - OPTION 2 – full location cost differentiation in 2011/12 - 2012/13 – i.e. restructure fees to move to full differentiation between tests at VOSA and non-VOSA facilities in 2011/12 - 2012/13. This option estimates the maximum differential that could be applied in 2011/12 - 2012/13. However, it is difficult to predict what differentials would be in 2013/14 and beyond because of the factors mentioned above. Under some scenarios there could be difficulty in even maintaining the Option 2 differentials, let alone increasing them
48. The fundamental difference between the 2 options is in the pace at which the progressive change in fees, to relate them more closely to delivery method, moves. VOSA's preferred option is Option 1 since it delivers a further step in a longer term evolution whilst minimising the potentially destabilising medium term effects from the factors discussed earlier.

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

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

## Costs and benefits of each option

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

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

### Key assumptions, sensitivities and risk

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

- *On average over the year 2011/12 - 2012/13 50% of the estimated 850,000 tests are assumed to be conducted at non-VOSA test facilities.* The accuracy of this assumption is dependent on the combined effect on the levers described in paragraph 24 and external factors beyond VOSA's control. Over the full evaluation period, it is certain that the proportion of tests at non-VOSA facilities will not remain at these levels. However, it is impossible to predict how the figures will vary. For this reason we have assumed that the split remains constant over the full 10 year appraisal period for the purposes of monetising the costs and benefits. The risk is that, in the short term, if fewer than 50% of tests are conducted at non-VOSA facilities, VOSA's income will be higher than expected. If more than 50% of tests are conducted at non-VOSA facilities there will be a shortfall in VOSA's income. The table below is a sensitivity analysis which illustrates the effect on annual income from the preferred option (Option 1) if the assumed 50/50 split of test locations is incorrect. As can be seen, each 5% more or fewer tests at non-VOSA alters VOSA's HGV and PSV test fee income by around 0.4%. Any variation will be taken into account in future fee reviews, both in terms of balances carried forward and assumptions on split of test locations until the next fee review. VOSA aims to carry out fee reviews annually, but this is not always possible.

#### Sensitivity analysis of assumption of 50/50 split between VOSA and non-VOSA tests

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

- *No reduction in VOSA estate costs in 2011/12 - 2012/13.* The largest element of estate cost reduction will come from closure of sites and their disposal. The size and timing of the reduction is dependent on many of the factors outlined in paragraph 29. VOSA considers it unlikely that the estate cost reductions from any closures during 2011/12 - 2012/13 will have any significant effect on costs during that period. The same factors make it extremely difficult to predict which sites will close and when they will close. For the purposes of monetising the costs and benefits, VOSA has

not assumed any reductions over the full appraisal period. Future periodic reviews of fee levels will take account of these savings as they materialise.

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

## Do nothing

52. If nothing were done on fee differentials the other levers mentioned in paragraph 24 would still be used, however as mentioned in paragraph 42 this would mean that those presenting HGVs and PSVs for test, etc, at non-VOSA test facilities would continue to bear the same proportion of the costs of the VOSA testing facilities as at present. The movement towards better relating costs to service delivery methods, which started in 2009/10 with progressive removal of supplements, charged for tests at non-VOSA facilities, would stall.
53. This may also cause some to doubt VOSA's intent to continue to move tests to locations more convenient to customers. This would mean that the benefits of Testing Transformation from moving tests nearer to where vehicles are maintained or based (i.e. taking the tester to the vehicle rather than the vehicle to the tester) include reduced staff and fuel costs for the vehicle presenter, reduced vehicle downtime and reduction in the need for future fee increases to fund further modernisation of VOSA's testing estate would be put at risk. These benefits have not been monetised in this IA since it is not possible to determine what proportion of these longer term benefits can be attributed to the fee change proposed in this IA in isolation from past and future fee changes and the other levers. Failure to continue progressing fee differentials whilst recovering full costs, even if only temporary, may discourage some customers from exploring the benefit of testing closer to maintenance locations; and hamper VOSA's efforts to move more tests to non-VOSA facilities, delaying the planned reduction in the cost of VOSA's testing estate or even lead to increased VOSA costs to keep worn out test facilities operating for longer than would otherwise have been the case.

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

54. This option was considered because it was felt that a fee increase of the size necessary under option 2 would be difficult to absorb in one year and a longer transitional period would spread the increase in costs over time. This approach will also allow time for a competitive market in test facility provision to develop more evenly across most of the country and for test customers to adjust to the new delivery methods.
55. A further factor in favour of a longer transition is that forecasting the medium to long term cost changes and their timing is far from an exact science. This is particularly the case in two areas.
  - Testing Transformation will lead to significant reductions in the size of VOSA's testing estate and costs will be reduced as VOSA test locations are closed and disposed of. The rate at which these reductions are achieved is dependent on localised conditions in the market in non-VOSA

facilities being created; and in the state of the property market which will affect the return from and timing of site disposals.

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

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

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

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

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

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

**Table 1**

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

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

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

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

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

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

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

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

63. Under this option, fees are restructured in 2011/12 - 2012/13 to charge the full cost of VOSA test facilities to customers that opt to use VOSA facilities and to charge the full cost of servicing non-VOSA facilities to those using non-VOSA facilities.
64. Table 2 below shows the estimated VOSA costs attributed to the HGV and PSV testing accounts and those costs which can be attributed to VOSA and non-VOSA facilities.

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

**Table 2**

65. Row B shows the projected cost in 2010/11 which assumed that about 27% of tests would be carried out at non-VOSA facilities and the planned cost in 2011/12 - 2012/13 assuming around 50% of tests are carried out in non-VOSA facilities. The cost is for additional staff needed to service non-VOSA facilities (because of travelling time and less efficient layout of some facilities) and of travel costs of the testing staff. It is derived from estimates in the Testing Transformation business case that such costs are around £81k for each 1% of tests at non-VOSA facilities. One element within the Testing Transformation project is a more formal relationship with the non-VOSA facility providers which includes incentives to encourage the facility providers to use VOSA staff in a more efficient manner than had been the case. Initial experience with those facility providers who have moved to the more formal arrangement suggests that this cost may not grow at the predicted levels. However since the new arrangements only started to operate in the early part of 2010, it is unclear whether this lower than expected cost increase is as a result of the enthusiasm of the early adopters, masked by more general aspects of VOSA's efficiency improvements or an indication that the business case estimate was overly cautious. The aim in option 2 is to move to full cost differentiation, therefore, for the purposes of this option, the business case estimate has been assumed to be correct in the absence of widespread evidence to the contrary.
66. In respect of row C; major reduction in the cost of the VOSA estate cannot be achieved until sites can be shut and disposed of. Even once a site has been shut, it may take some time to end the lease of the premises; or to find a buyer and complete the sale. For owned sites, the difference between book value and proceeds of sale will vary from site to site. At the time of writing, VOSA has closed, but not yet disposed of test facilities at Birmingham and Mitcham. It has also announced its intention to close its test facilities at Glasgow, Liverpool, Gloucester, Stoke-on-Trent and Ipswich during 2011/12. It has not reached any final decisions on the future closure programme, which will be determined by how the market in non-VOSA test facilities develops. It is unlikely that any significant proceeds of sale of VOSA sites will be available to contribute significant cost reductions in 2011/12 - 2012/13. Thus, in 2011/12 - 2012/13 the cost of the VOSA testing estate will have to be spread over a decreasing number of tests, so each test will have to contribute a higher proportion of this cost.

67. In respect of row D; as explained in paragraph 31 above, much of the benefits from VOSA's efficiency improvements will have to go to recovering the accumulated deficit – customers will, however, benefit because VOSA will not pass on the effects of inflation. This means that for 2011/12 - 2012/13 row D is to be treated as a fixed cost.
68. Table 3 below shows how the VOSA costs attributed to HGV and PSV testing accounts would be recovered under Option 2.

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

**Table 3**

69. Column 1 shows the “do nothing” option in which the costs are split equally between the 2 delivery methods based on the assumed 50/50 split of test locations.
70. Column 2 splits only the base costs on a 50/50 basis and attributes the location specific costs to the relevant locations.
71. Column 3 shows the percentage change in costs for each location type, which would be reflected in fee changes under Option 2.
72. The actual percentage changes for individual fees would differ because of the other elements in the fees (see paragraphs 69 to 73) and because fees are rounded to whole Pounds.
73. The overall effect on HGV operating costs of the changes proposed in option 2 for those choosing to use VOSA test facilities, the typical annual fees paid to VOSA would increase by £8 (0.014% of operating costs) for the operator of a single 7.5 tonne HGV; or £3,366 (0.016% of operating costs) for a representative mixed fleet of 250 HGVs. Those being tested at non-VOSA facilities would see decreases of £2 (0.004% of operating costs) and £1,070 (0.005% of operating costs) respectively. The rental and leasing sector would experience an increase equivalent to 0.054% of operating costs if tests were all carried out at VOSA and a decrease equivalent to 0.018% of operating costs if all tests were carried out at non-VOSA facilities.

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

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

#### **Consultation results, preferred Option and implementation**

75. VOSA conducted a public written consultation on this and other proposed changes to the fees it charges. Details of how the overall fee package interacts with these proposals are given under the heading “other proposed changes in fees not included in this IA” (paragraphs 69 to 73).
76. The main points from the consultation responses on questions related to changes proposed in this IA are:



- Ten respondents supported continuing to move towards the cost of VOSA test facilities being met by those using them. Two respondents did not support this policy - one generally and one particularly at this time. Opinions on the preferred option of reducing fees at non-VOSA by 4% and increasing those at VOSA by 4% were more mixed with six supporting the preferred the proposal and four opposing it. One respondent commented that the non-preferred option 2 of increasing fees at VOSA by 11.6% and reducing those at non-VOSA by 5.8% was too steep an increase, whilst expressing no opinion on the preferred option.
  - Comments made across the two questions majored on the desire that VOSA should ensure adequate alternative provision in an area before closing its own test facility and on the fairness of differentiation when not all operators had the option of taking their vehicles to a non-VOSA facility.
  - Nine respondents favoured keeping DVA fees for RPCs in Northern Ireland (see paragraph 16) at the same level as at VOSA facilities in GB – one disagreed with that view.
  - One respondent believed that fees should not be set on the basis of “speculative volumes” whilst VOSA does not fully understand how the market will develop or whether newer entrants will have the same enthusiasm as early adopters.
  - One respondent considered it inappropriate to increase fees for RPC and LEC certificates which were issues without physical examination to the same level as those involving tests at VOSA facilities (see paragraph 14).
77. In considering which option to adopt, VOSA took account of the following main factors:
- While recognising concerns about the effect of increases for tests at VOSA on those with no access to non-VOSA facilities these must be balanced against effect on those using non-VOSA facilities who are paying the non-VOSA facility provider for the test facilities (the pit fee) yet still contributing to the cost of the VOSA estate which they don't use.
  - Although not raised in any formal response, a further factor which has featured in discussions with potential non-VOSA facility providers is that many businesses considering setting up facilities see as unfair competition the fact that the fee charged for a test at VOSA is less than the VOSA fee for a test at a non-VOSA facility plus the pit fee. They are therefore reluctant to invest in a non-VOSA facility until the closure of their local VOSA facility is announced or the differential in VOSA fees is considerably wider than is currently proposed. Thus, both the rate of closure of VOSA facilities and the rate of change of differentials have an effect on the rate of establishment of new non-VOSA facilities; and therefore the availability of savings to many businesses from more convenient test locations.
  - VOSA accept that although increasing fees for RPC and LEC for which there is no physical inspection to the same level as those where a physical inspection takes place at a VOSA facility makes for a simpler fee structure, it is probably an inappropriate burden on those using this service.
78. On balance, VOSA propose to implement a slightly modified option 1:
- The testing element of fees for tests at non-VOSA facilities will be reduced by 4% and that for tests at VOSA facilities will be increased by 4%.
  - RPC and LEC fees involving tests at non-VOSA will also fall by 4%; those at VOSA facilities will rise by 4%.
  - RPCs at DVA facilities in Northern Ireland will increase by 4% in line with the increase at VOSA facilities in GB.
  - Fees for RPC and LEC applications which are determined without physical examination will not be changed.

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

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

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

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

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

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

81. For PSVs the situation is more complex because:

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

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

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

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

## Specific Impact Tests

### Statutory equality duties

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

### Competition assessment

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

### Small firms impact test

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

### Greenhouse gas impact assessment

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

### Wider environmental impact assessment

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

### Health and wellbeing impact assessment

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

### Human rights

90. The proposals have no human rights impact.

**Justice impact test**

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

**Rural proofing**

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

**Sustainable development**

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

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

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

### HGV Test Fees

#### Motor Vehicles

##### Test & retest beyond 14 days

Fee Description	2010 fee Rounded	Enforcement element (unchanged)	2010 testing element	2011 testing element	2011 fee (rounded)	Overall % change
2 Axle at VOSA	£95	£38.52	£56.69	£58.96	£98	3.2%
3 Axle at VOSA	£120	£38.52	£81.15	£84.39	£123	2.5%
4+ Axle at VOSA	£145	£38.52	£106.71	£110.98	£150	3.4%
2 Axle at non-VOSA	£95	£38.52	£56.69	£54.42	£93	-2.1%
3 Axle at non-VOSA	£120	£38.52	£81.15	£77.90	£117	-2.5%
4+ Axle at non-VOSA	£145	£38.52	£106.71	£102.44	£141	-2.8%
OOH Sup	£38	£0.00	£38.15	£38.15	£38	0.0%

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

2 Axle at VOSA	£38	£0.00	£37.79	£39.31	£40	5.3%
3 Axle at VOSA	£53	£0.00	£53.36	£55.49	£56	5.7%
4+ Axle at VOSA	£70	£0.00	£70.03	£72.83	£73	4.3%
2 Axle non-VOSA	£38	£0.00	£37.79	£36.28	£37	-2.6%
3 Axle at non-VOSA	£53	£0.00	£53.36	£51.22	£52	-1.9%
4+ Axle at non-VOSA	£70	£0.00	£70.03	£67.23	£68	-2.9%
OOH Sup	£20	£0.00	£19.62	£19.62	£20	0.0%

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

All	£13	£0.00	£13.34	£13.34	£13	0.0%
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#### Trailers

##### Test & retest beyond 14 days

1 Axle at VOSA	£43	£14.98	£27.79	£28.90	£44	2.3%
2 Axle at VOSA	£57	£14.98	£42.24	£43.93	£59	3.5%
3 Axle at VOSA	£68	£14.98	£53.36	£55.49	£71	4.4%
1 Axle at non-VOSA	£43	£14.98	£27.79	£26.68	£42	-2.3%
2 Axle at non-VOSA	£57	£14.98	£42.24	£40.55	£56	-1.8%
3 Axle at non-VOSA	£68	£14.98	£53.36	£51.22	£67	-1.5%
OOH Sup	£24	£0.00	£23.98	£23.98	£24	0.0%

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

1 Axle at VOSA	£19	£0.00	£18.90	£19.65	£20	5.3%
2 Axle at VOSA	£27	£0.00	£26.68	£27.75	£28	3.7%
3 Axle at VOSA	£36	£0.00	£35.57	£36.99	£37	2.8%
1 Axle at non-VOSA	£19	£0.00	£18.90	£18.14	£19	0.0%
2 Axle at non-VOSA	£27	£0.00	£26.68	£25.61	£26	-3.7%
3 Axle at non-VOSA	£36	£0.00	£35.57	£34.15	£35	-2.8%
OOH Sup	£13	£0.00	£13.08	£13.08	£13	0.0%

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

All	£7	£0.00	£6.67	£6.67	£7	0.0%
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## Annex A (continued) – Fees with preferred option (option 1)

### HGV Test Fees (continued)

#### Notifiable alterations

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

#### Appeal

	£29	£0.00	£29.43	£30.61	£31	6.9%
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	£13	£0.00	£13.08	£13.08	£13	0.0%
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### HGV and PSV fees for Reduced Pollution Certificates and Low Emission Certificates

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

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

### PSV test fees

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

#### Test & retest beyond 14 days

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

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

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

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

	£12	£0.00	£0.00	£0.00	£12.10	£12.10	£12	0.0%
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	£10	£0.00	£0.00	£0.00	£0.00	£0.00	£10	0.0%
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## Annex B - Effect of Fee Changes on HGV Operating Costs

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

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

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

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



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

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

### Vehicle operating costs & fleet mix

per vehicle, vehicle operating costs

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

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

### Rental & Leasing Industry - fleet size

Proportion of commercial vehicle rental and leasing fleet provided by BVRLA members (source BVRLA website)			65%
Fleet size	Motor vehicles	BVRLA members 152,083	Total fleet 233,974
	Trailers	25,554	39,314

NOTE: figures supplied by BVRLA are at 4/6/10

### O licence per licence fees

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

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

### Data to enable calculation of average testing costs

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

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

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

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

### Test fees by vehicle type

#### At VOSA premises

Vehicle	2 axle motor vehicle			3 axle motor vehicle			4 axle motor vehicle		
	Test	retest	average veh	Test	retest	average veh	Test	retest	average veh
2010	£95.00	£38.00	£100.94	£120.00	£53.00	£128.29	£145.00	£70.00	£155.94
2011	£98.00	£40.00	£104.25	£123.00	£56.00	£131.76	£150.00	£73.00	£161.41
Op cost Change	£3.00	£2.00	£3.31	£3.00	£3.00	£3.47	£5.00	£3.00	£5.47
Trailer	2 axle trailer			3 axle trailer					
	Test	retest	average veh	Test	retest	average veh			
2010	£57.00	£27.00	£61.04	£68.00	£36.00	£73.39			
2011	£59.00	£28.00	£63.19	£71.00	£37.00	£76.54			
Op cost Change	£2.00	£1.00	£2.15	£3.00	£1.00	£3.15			

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

Vehicle	2 axle motor vehicle			3 axle motor vehicle			4 axle motor vehicle		
	Test	retest	average veh	Test	retest	average veh	Test	retest	average veh
2010	£95.00	£38.00	£100.94	£120.00	£53.00	£128.29	£145.00	£70.00	£155.94
2011	£93.00	£37.00	£98.79	£117.00	£52.00	£125.13	£141.00	£68.00	£151.63
Op cost Change	£2.00	£1.00	£2.16	£3.00	£1.00	£3.16	£4.00	£2.00	£4.31
Trailer	2 axle trailer			3 axle trailer					
	Test	retest	average veh	Test	retest	average veh			
2010	£57.00	£27.00	£61.04	£68.00	£36.00	£73.39			
2011	£56.00	£26.00	£59.89	£67.00	£35.00	£72.24			
Op cost Change	£1.00	£1.00	£1.15	£1.00	£1.00	£1.15			

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

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

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

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