

Title: Driver and vehicle services fee changes IA No: DfT00426 RPC Reference No: Lead department or agency: Driver and Vehicle Standards Agency Other departments or agencies:	Impact Assessment (IA)			
	Date: 19/01/2021			
	Stage: Development/Options			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
Contact for enquiries: consultations@dvs.gov.uk				

Summary: Intervention and Options	RPC Opinion: Not applicable
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Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
£0.0	-£17.9	£2.1	Non qualifying provision

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

The Driver and Vehicle Standards Agency (DVSA) seeks to fund the services it delivers from fees received in accordance with the principles set out in Managing Public Money. The majority of fees have not increased for more than a decade and current forecasts indicate that, if no action is taken, there will be a growing imbalance in the financial position of the agency's services. This arises from modernisation of delivery, including investment in digital technology, the need to recruit operational staff to reduce waiting times and increasing accommodation costs. The effect of inflation has also reduced the value of the income received by the Agency over a number of years.

What are the policy objectives of the action or intervention and the intended effects?

To help ensure that income for driving and vehicle services covers the costs of delivery to users and to enable the Agency to invest in future modernisation of those services. DVSA is proposing to increase most of its statutory fees by 1.5%, which would seek to address a growing financial imbalance.

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

Policy Option 1 – to increase fees by 1.5%.
 Policy Option 0 - keep fees at current levels (no change).
 Only Option 1 seeks to address the shortfall in funding and moves towards meeting the requirement to set fees to recover costs. The increases under Option 1 would still keep the fees lower than had they kept pace with inflation. This measure is amending a fee level. It is excluded from obligations to calculate a Business Impact Score, verified by the RPC, under section 22 of the Small Business, Enterprise and Employment (SBEE) Act 2015 and it is not considered a “regulatory provision” for the purposes of Business Impact Target reporting and impact assessment. This impact assessment has been published for transparency and to aid consultation. It is not a statutory requirement.

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			
Is this measure likely to impact on international trade and investment?			No			
Are any of these organisations in scope?			Micro Yes/No	Small Yes/No	Medium Yes/No	Large Yes/No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded:		Non-traded:	

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

Signed by the responsible SELECT SIGNATORY: Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2020	PV Base Year 2021	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0.0	High: 0.0	Best Estimate: 0.0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.0	0.0	0.0
High	0.0	0.0	0.0
Best Estimate	0.0	5.1	43.9

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

There will be a transfer of funds between customers and those delivering the service. This will include those taking driving tests, vehicle tests and other services. The details of the fees are at Annex A. More explanation of the impact on different groups of customers is given in the evidence base.

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

There are no other costs.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	0.0	0.0
High	0.0	0.0	0.0
Best Estimate	0.0	5.1	43.9

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

There will be a transfer of funds between customers and those delivering the service. For the service provider, this will cover the costs of current delivery, including keeping waiting times as low as possible and funding the provision of accommodation. It will also enable future initiatives to be pursued. In addition, it will address the effect of inflation over the period that fees have not increased.

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

The increased income will enable DVSA to maintain service delivery and pursue future initiatives. This will have benefits for those using these services at present and in the future. The changes will help the Agency to continue to provide this investment.

Key assumptions/sensitivities/risks

Discount rate (%)

Whilst it is recognised that any increase in fees could potentially act as a disincentive to some to access DVSA's services, it is considered that the low level of increases, compared with the overall costs of other related activities that its customers will engage with, is unlikely to have a significant effect on demand.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only)
Costs: 2.3	Benefits: 0.0	Net: 2.3	
			£0m

Evidence Base

Problem under consideration and rationale for intervention

Problem under consideration

The Driver and Vehicle Standards Agency (DVSA) covers the costs of delivering its services from fees paid by its customers. Under present forecasts, over the longer term, there is likely to be a deficit in its finances. Additional revenue, to support these services, is therefore required, which can be provided by moderate increases in the appropriate fees.

Rationale for intervention

The fee changes that are proposed are aimed at addressing a forecast shortfall in DVSA's finances. Key reasons for the expected deficit are:

- Investment in and increased running costs of digital systems.
- Increased depreciation costs resulting from investment in new systems.
- Non-pay inflation.
- Fees remaining unchanged for some years, the majority for a decade, reducing their value in real terms.

The following table indicates some of the Agency's key indicative fees compared with inflation figures based on Consumer Price Index methodology from the Office of National Statistics¹ since 2010. These are as follows:

- The practical car driving test.
- The theory driving test (please note that this reduced to £25 in 2014 and again to £23 in 2015).
- The vehicle test, of a motor vehicle with three axles, at a non-DVSA site (this also reduced to £117 in 2012 and £113 in 2014).

In cases where the fees reduced, the following table shows what they would have been if the fees had remained at their previous level.

Item	Year	Original fee	What fee would be if it had retained value
Practical car test	2010	£62.00	£62.00
	2011	£62.00	£64.77
	2012	£62.00	£66.65
	2013	£62.00	£68.31
	2014	£62.00	£69.35
	2015	£62.00	£69.35
	2016	£62.00	£69.84
	2017	£62.00	£71.71
	2018	£62.00	£73.44
	2019	£62.00	£74.76

¹ Calculated from Office Of National Statistics – Consumer Price Inflation table 20a
<https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation>

	2020	£62.00	£75.38
It is proposed to increase this fee from the current £62.00 to £62.90.			

Item	Year	Original fee	What fee would be if it had retained value
Theory test - car and motorcycle	2010	£31.00	£31.00
	2011	£31.00	£32.39
	2012	£31.00	£33.32
	2013	£31.00	£34.16
	2014	£31.00	£34.68
	2015	£31.00	£34.68
	2016	£31.00	£34.92
	2017	£31.00	£35.85
	2018	£31.00	£36.72
	2019	£31.00	£37.38
	2020	£31.00	£37.69
Reduced to £25 in 2014 and to £23 in 2015. It is proposed to increase this fee from the current £23.00 to £23.40.			

Item	Year	Original fee	What fee would be if it had retained value
Vehicle test (motor vehicle with three axles, non-DVSA site)	2010	£120.00	£120.00
	2011	£120.00	£125.37
	2012	£120.00	£128.99
	2013	£120.00	£132.21
	2014	£120.00	£134.23
	2015	£120.00	£134.23
	2016	£120.00	£135.17
	2017	£120.00	£138.79
	2018	£120.00	£142.15
	2019	£120.00	£144.70
	2020	£120.00	£145.91
Reduced to £117 in 2012 and £113 in 2014. It is proposed to increase this fee from the current £113 to £114.70.			

The effect of Covid-19

The Covid-19 pandemic has had unexpected effects across the world. It is possible that it could have an effect on demand for DVSA's services, such as driving tests, MOT tests and vehicle tests. At this point, however, when a vaccine is about to be rolled out, there is no way of knowing with any certainty precisely what that effect could be.

DVSA's services were, along with many others in a variety of areas, suspended for significant parts of 2020. This has resulted in a pent up demand for services such as driving tests and, as such, experience to date has indicated that demand remains high. There is no way of knowing whether this will continue or to what extent it may fluctuate in the future.

For the purposes of this impact assessment, therefore, it is considered that the best way to assess future demand is to use the figures from the last pre-Covid year. Demographics are unlikely to have changed significantly and, whilst there may be peaks and troughs arising from the effects of the pandemic and ensuing lockdowns, the overall average demand will remain the same. We have therefore decided to use demand figures from 2019/20 as the basis of calculating the financial impacts of these fee proposals.

Dealing with the shortfall in funding

DVSA made £36.7m savings through efficiency measures in the three financial years to 2019/20 and has repaid all loans from DfT totalling £47.8m since 2015/16.

The proposed increases are forecast to result in some extra £5.1m per annum of income from when the fees are changed, assuming that customer demand remains at anticipated levels. In spite of this additional income, DVSA will still need to make further efficiency savings to achieve break-even.

Long term investment

DVSA's services are central to maintaining and improving safety on Britain's road network. The Agency is investing in the underlying systems supporting delivery of its core services. By setting fees at a level which enables investment in the future of its services, the Agency will be able to implement the type of approach taken in relation to the MOT facility. Through this approach, a digital provision has been developed which has enabled investment in additional features, such as the MOT reminder service.

Examples of DVSA's investments are:

- Digitising the recording of the practical driving test
- Redesigning the driving theory test, removing the reliance on a single national supplier
- Moving core digital services onto the cloud to remove the risk of server failure

Investments are also intended to provide the platform for additional services and different operating models in the future. This will, for example, enable DVSA to support future road safety priorities by having the flexibility to readily adapt to changing content, methodology and technology. At present, we are able to fund our investments from reserves and fees but at current fee levels our income will not cover our long term running costs.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

This IA has considered the financial impact of the proposals. Whilst they will require users of our services to pay more, the increases are below the rate of inflation since they were last increased, in most cases a decade ago. It is not considered that this level of increase will have a significant impact compared with the overall costs of those using these services.

Description of options considered

Option 1 – increase fees for our services

This is the preferred course of action. Fees would increase by 1.5%. The full details are at **Annex A**.

Option 0 - keeping the fees at current levels

If fees were not increased, the most immediate impact would be that it would not be possible to address the expected shortfall in finances underpinning the delivery of these services. This may impact on service levels to ensure that they met lower real term income. This might include limiting future investment which could impact in areas such as waiting times for tests and further digital development. This would be likely to have a detrimental effect on the longer term delivery of services.

Policy objective

The intended outcome of this measure is to address a forecast shortfall in DVSA's finances, which would affect the delivery of services (please see "Rationale For Intervention" above for a more detailed description).

Summary and preferred option with description of implementation plan

The new fees would be made by statutory instrument and administered by DVSA when users booked the necessary driving test, such as a driving or vehicle test.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Option 1 - costs and benefits

The estimated effect of the changes in costs and benefits to the affected groups is as follows. This is a transfer of funds between the public and the public sector.

	Additional fee
Driver	£2,798,386
Vehicle	£2,285,805
Total	£5,084,191

Driver services cover such areas as practical and theory driving tests, tests to join the Approved Driving Instructor (ADI) scheme and the running of the ADI Register. Vehicle services cover areas such as vehicle testing, MOT testing and vehicle certification. While there are exceptions (such as elements of the ADI scheme and MOT testing) it is likely that vehicle services will affect business and driving services the public. In spite of the exceptions, this is considered a sensible differentiation to assess the impacts.

Costs

Monetised costs to business

There will be direct costs to business from these changes. The following vehicle services are likely to have an impact on businesses rather than the public. These are most likely to affect those operating haulage and passenger transport. The changes are expected to be of the following level.

	Additional fee
Vehicle Services	£1,202,575
MOT Services	£923,224
Licensing Services	£160,005
Total vehicle	£2,285,805

It is theoretically conceivable that there may be a reduction of use in our services as a result of the changes. However, in practice, we consider this to be highly unlikely. Though there is no direct evidence for the demand response to changes in the price of DVSA services, we do know that demand for driving is very irresponsive to the marginal costs of doing so, such as fuel.² It follows that is likely that increases in the sunk costs of driving (i.e. mandatory DVSA tests) have significantly less impact on demand than the marginal costs: if an individual is unlikely to reduce how much they drive due to the cost of fuel rising, they are even less likely to forgo the lifetime decision to drive altogether due to a small increase in the price of doing so (through DVSA test fees).

Non-monetised costs to business

There will be no non-monetised costs to business from the changes.

Monetised costs to the public sector

There will be no monetised costs to the public sector from the changes. The increases will be used to invest in services and to cover an shortfall arising from the lack of an increase over the last ten years.

Non-monetised costs to the public sector

There will be no non-monetised costs to the public sector.

Monetised costs to the public

There will be direct costs to the public from these changes, for example there would be a transfer of funds from the public to the public sector from increased driving test fees. The changes are expected to be of the following level.

	Additional fee
Practical test	£1,779,769
Theory test	£930,103
ADI scheme	£88,514
Total driver	£2,798,386

As with vehicle services, it is not inconceivable that these increases may convince someone to no longer pursue learning to drive, or their ambition to become or continue as an ADI. However, it is considered unlikely in view of the other costs.

Non-monetised costs to the public

There are no non-monetised costs to the public.

² Road traffic demand elasticities (2014), typically find elasticity values of less than -0.3

Benefits

Monetised benefits to business

There are no monetised benefits to business from the proposals.

Non-monetised benefits to business

Over the longer term, businesses may benefit from improvements to our services resulting from investment in research and modernisation. We are developing our digital services on an ongoing basis. For example, we introduced the use of tablet computers by examiners to record driving test results enabling automated data capture, thereby speeding up interaction with DVLA, making it quicker to get a full driving licence, share information about tests with candidates electronically and reduce potential for fraud. We are also developing a new theory test service which we will administer ourselves, allowing us to access to a greater number of potential suppliers, explore future initiatives to improve the service and make it more flexible for customers.

Monetised benefits to the public sector

There is a corresponding transfer in funds from the public to the public sector. This would be invested in future improvements to DSA's services and address the fact that fees have not increased for many years. The following is an indication of the order of transfer, broken down by the main areas of business:

	Additional income
Driver	
Practical test	£1,779,769
Theory test	£930,103
ADI scheme	£88,514
Vehicle	
Vehicle Services	£1,202,575
MOT Services	£923,224
Licensing Services	£160,005
Total	£5,084,191

The following is the transfer over ten years which is based on pre Covid-19 demand. As explained above, there may be some fluctuation as a result of, as yet unknown, changes to behaviour following the pandemic. However, it is considered that demand figures from 2019/20 give the best estimate of the likely demand over the next few years.

Public sector – benefit	Driver testing services	Vehicle testing and licensing services	Total
Additional fee compared with 2020-21			
Each year	£2,798,386	£2,285,805	£5,084,191
Total additional fee over 10 years	£27,983,865	£22,858,050	£50,841,915

It is estimated that demand for DVSA's services, due to the price rise, would need to fall by around 1.5% overall, compared with current demand, for the benefits of the increases (total) to be lost. As indicated under Monetised Costs To Business above, demand for driving is very irresponsive to marginal costs, so it is unlikely that a small increase in fees would result in a fall in demand. If demand fell for other reasons, this would affect income received both before and after the increases, so would not affect the change in income (ie the benefit) arising from these measures.

	Income based on current fee and demand (annual)	Income based on new fee and current demand	Income based on new fee and reduced demand	Overall difference - new fee income (reduced demand) - current fee income (current demand)
% reduction			1.50%	
Practical test	£122,340,823	£124,120,592	£122,258,783	-£82,040
Theory test	£53,733,282	£54,663,385	£53,843,434	£110,152
ADI	£5,881,039	£5,969,553	£5,880,010	-£1,029
Vehicle services	£78,895,908	£80,098,483	£78,897,006	£1,098
MOT services	£63,086,985	£64,010,209	£63,050,056	-£36,929
Licensing services	£10,651,001	£10,811,006	£10,648,841	-£2,160
Total	£334,589,038	£339,673,229	£334,578,131	-£10,907

Non-monetised benefits to the public sector

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

Monetised benefits to the public

Over the longer term, the public would benefit from improvements to DVSA's services resulting from investment in research and modernisation.

Non-monetised benefits to the public

There are no non-monetised benefits to the public from the proposals.

Option 0 – costs and benefits

Costs

Monetised costs to business

There will be no direct costs to business from retaining the current fees.

Non-monetised costs to business

Not increasing the fees would undermine DVSA's work in improving services and investing in digital services, as well as keeping waiting times down and improving its accommodation. This would affect business. It is, by its very nature, not possible to put a cost on the lack of development of these opportunities.

Monetised costs to the public sector

DVSA would not be able to deal with the projected shortfall in its income without making these changes.

Non-monetised costs to the public sector

As with business, there would be a cost in lost opportunity from not increasing the fees. DVSA would not be able to take forward initiatives to undertake development which could lead to benefits. Again, it is not possible to put a cost on this.

Monetised costs to the public

There will be no monetised costs to the public from not making the changes.

Non-monetised costs to the public

As with business and the public sector, there could be lost opportunities in not taking forward future initiatives.

Benefits

Monetised benefits to business

There are no monetised benefits to business from not taking forward the proposals.

Non-monetised benefits to business

There are no non-monetised benefits to business from not taking forward the proposals.

Monetised benefits to the public sector

There are no monetised benefits to the public sector from not taking forward the proposals.

Non-monetised benefits to the public sector

There are no non-monetised benefits to the public sector from not taking forward the proposals.

Monetised benefits to the public

The only benefits to the public from not taking forward the proposals are that they would continue to pay current fees. However, against the status quo there are no benefits.

Non-monetised benefits to the public

There are no non-monetised benefits to the public from not taking forward the proposals.

Comparison

The nominal costs of Option 1 would be some £50.8 million over ten years . This would be replicated under benefits. There are no costs or benefits under Option 0.

Direct costs and benefits to business calculations

Other than the increases in fees, there are no direct costs, nor benefits, for business.

Risks and assumptions

There is a very small risk that some may be discouraged from using our services by these changes. For reasons explained elsewhere, this is considered unlikely. The changes are within inflation and do not, within themselves, add such an amount to costs to mean that some will not use our services.

The COVID-19 pandemic has distorted demand during the period since lockdown. This has, in some cases, led to higher than expected demand. From the point of view of anticipating future volumes, it is therefore assumed that demand will continue at the same level as previously.

Impact on small and micro businesses

The measure will affect those businesses booking DVSA's services, some of which could be described as small or micro businesses. The fee changes are for our customers and it would not be possible to exempt certain organisations from them. As stated elsewhere in this IA, the changes are only 1.5% of the current fee – and have not increased for a decade – and, as such, should not have a disproportionate impact.

Wider impacts (consider the impacts of your proposals)

Family test

The proposals have been considered from the point of view of the family. Some of the fee proposals would affect members of a family unit. The main ones are the proposed changes to driving test fees. There could be situations where other members of a family unit will fund a learner driver's tuition and test. They may also provide additional practice in a family car and fund insurance and potentially the purchase of a car when the learner has passed the test. The driving test fee is an element in that financial commitment.

There is no definitive assessment of the cost of learning to drive but this can be estimated as somewhere around £2,500. During the preparation of this impact assessment, Safe Driving For Life estimated that the average motorist would spend £2,574 on learning to drive (see below). This was based on a learner buying a provisional licence, taking around 40 lessons before passing the test, paying for the use of the instructors car before the test, paying for the theory and practical tests just once, paying for temporary car insurance to allow them to take private practice with family and friends and buying revision material for the theory test.

Provisional licence	£34
Number of lessons	40
Cost of lesson	£24
Total cost of lessons	£960
Use of instructors car for the test (two hours)	£48
Theory test fee	£23
Practical test fee	£62
Insurance for private lessons	£1,422
Revision material for theory test	£25
Total cost of learning to drive	£2,574

The average cost of a driving lesson is now considered to be higher than this, closer to £30 - £35. However, other sources gave a different estimate. Compare The Market puts the overall cost of learning to drive between £1,600 and £3,300, based on an assessment of the cost of driving lessons as £29.20. Confused.com gave an assessment of up to £1,275, based on £24 per lesson, excluding insurance, Drivingtestsuccess.com gave an estimate of some £1,500, based on 48 lessons at £24 each excluding insurance.

Individual experiences will differ. It might be possible to reduce amounts spent in some areas. Once insurance is included, however, and assuming regular lessons with a driving instructor, it is estimated that it is likely that the full cost will be somewhere around £2,000 and £2,500 . Subsequent insurance for a newly qualified driver is likely to be higher than for a more experienced driver and the cost of a vehicle could range from a few hundred to thousands of pounds.

The maximum percentage, where both tests are taken four times, is an increase of 0.2% compared with the overall cost of learning to drive.

Overall cost of learning to drive: £2,574			
Test type	Number of times test taken	Increases	Percentage of increase compared with overall cost of learning to drive
Practical test	Once	£0.90	0.03%
	Twice	£1.80	0.07%
	Three times	£2.70	0.10%
	Four times	£3.60	0.14%
Theory test	Once	£0.40	0.02%
	Twice	£0.80	0.03%
	Three times	£1.20	0.05%
	Four Times	£1.60	0.06%
Practical and theory test	Once	£1.30	0.05%
	Twice	£2.60	0.10%
	Three times	£3.90	0.15%
	Four times	£5.20	0.20%

Against this background, it is not felt that the proposed increases – of 1.5% per annum - would be likely to inhibit a family supporting a learner to drive.

Looking at the overall situation, it is considered that the cost of becoming and remaining a driver, with the costs of training, insurance and running a vehicle can be off-putting. However, the driving test is a small proportion of that cost and, as a part of that, the increase to the driving test fee is even lower. In the circumstances, we do not feel that increases of this magnitude are likely to affect the ability or willingness of families to support drivers.

A summary of the potential trade implications of measure

We do not consider that there will be any impact on trade or investment. The level of the increases is too small to have an effect in these areas.

Monitoring and Evaluation

The changes will be incorporated into DVSA’s fee structure, for fees paid by customers for delivery of its services. We routinely monitor demand for our services and our finances. We will not need to collect extra data to do this.