

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>Transport</b>	<b>Title:</b> <b>Impact Assessment of MOT Fee Increases in 2008</b>	
<b>Stage:</b> Consultation	<b>Version:</b> 1	<b>Date:</b> 3 March 2008
<b>Related Publications:</b>		

**Available to view or download at:**

<http://www.dft.gsi.gov.uk>

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

The need to increase the test fee maxima (the maximum fees that test stations may charge to carry out MOT tests). Included within this fee is an amount that is passed on to VOSA to cover its costs in administering the MOT scheme.

The VOSA element of the fee, known as the pad or slot fee, needs to be increased so that VOSA can continue to cover its costs in operating and enforcing the scheme to the correct standards. The main part of the fee (ie that retained by test stations) needs to be increased to ensure that test stations can cover their costs in providing the testing service.

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

To ensure that the maximum fee levels strike the right balance between costs to industry, burdens on customers and the desire to maintain the highest possible standards of road safety and vehicle roadworthiness.

The purpose of the statutory requirements for vehicle testing are to help ensure that motorists maintain their vehicles in a reasonable way so that they are safer to use on public roads and pollution from vehicle emissions is minimised. Fee maximums need to be set at a level that adequately compensates test centres, but not so high that motorists are exploited.

**What policy options have been considered? Please justify any preferred option.**

The option to leave fee maxima at current levels was considered, but not pursued given that this might lead to some test stations withdrawing from offering tests and would leave VOSA unable to adequately administer and enforce the MOT scheme.

Only the preferred option of increasing VOSAs element of the fee by 14p and the overall fee maxima by 5.4% has been pursued.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** Fee maxima tend to be reviewed every year and occasionally comprehensive observations studies are done to check the time and costs incurred in carrying out the average test for each class.

**Ministerial Sign-off** For consultation stage Impact Assessments:

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

Signed by the responsible Minister:

.....Date:

## Summary: Analysis & Evidence

Policy Option: 1	Description: Increase the fee maxima to allow for inflationary increases in costs to VTS and VOSA
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups'
	One-off (Transition)	Yrs	
	£ n/a	0	
	<b>Average Annual Cost</b> (excluding one-off)		
£ none		<b>Total Cost (PV)</b>	£ none
Other <b>key non-monetised costs</b> by 'main affected groups' Motorists would see an increase in costs in money terms.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups'
	One-off	Yrs	
	£ n/a	0	
	<b>Average Annual Benefit</b> (excluding one-off)		
£ none		<b>Total Benefit (PV)</b>	£ none
Other <b>key non-monetised benefits</b> by 'main affected groups' Test stations would see an increase in revenue in money terms. Motorists should continue to have the same range of test stations, which may not be the case without a fee increase. This represents a reduction in motorists' travel costs and associated externalities.			

**Key Assumptions/Sensitivities/Risks** The main risk is that the fee increase is not substantial enough; if fee maxima are too low, test stations could close. This could lead to increased travel costs. Another risk is that the fee increase is too high, which could enable some test stations to increase prices above the competitive level.

Price Base Year 2008	Time Period Years	<b>Net Benefit Range (NPV)</b> £ n/a	<b>NET BENEFIT (NPV Best estimate)</b> £ none
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What is the geographic coverage of the policy/option?	UK?			
On what date will the policy be implemented?	June 2008			
Which organisation(s) will enforce the policy?	VOSA			
What is the total annual cost of enforcement for these organisations?	£ n/a			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ n/a			
What is the value of changes in greenhouse gas emissions?	£ n/a			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro n/a	Small n/a	Medium n/a	Large n/a
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)	
Increase of	£ n/a	Decrease of	£ n/a
		<b>Net Impact</b>	£ n/a

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

### Background

The longstanding practice of the DfT has been to set MOT fee maxima in such a way that test stations are able to cover their costs in providing MOT tests to the extent that new test stations are encouraged to join the MOT scheme so that motorists have plenty of choice (in deciding which test station to use) and do not need to travel excessively long distances in doing so.

As MOT tests are a legal requirement, we have a responsibility to set fee maxima which reduce the possibility for abuses of market power, whilst ensuring that test stations can fully meet the costs of undertaking MOT tests. If some test stations were unable to meet the costs of provision they would not continue to offer MOT tests. In addition VOSA must cover its costs in managing the various vehicle testing schemes through ensuring the necessary income. This is in order to comply with HM Treasury guidance.

There is a need to update the test fees to account for the effect of price inflation. The MOT fee increases have usually been an annual process, although in 2007 there were no increases.

Currently, a car MOT test costs at most £50.35. The testing station would receive £48.64 and the remaining £1.71 goes to VOSA.

VOSA have explained that their costs in running the scheme have increased since the computerisation of the test recording process in 2005 and that these additional costs have not been met through increases in the pad fee to date. After careful consideration of VOSA's costs and income by the SSDL group finance team in DfT an 8.5% or 14p increase in the pad fee was considered to be appropriate to meet the objectives of VOSA covering its costs of maintaining adequate compliance with the rules of the MOT testing scheme.

The proposed new fee maxima for each class of fee are set out in the table below. The fees are rounded to the nearest 5p

Test class	current fee max	Proposed new max. fee
Class I m/c tests	27.15	28.65
Class II m/c	34.65	36.55
Class III 3 wheelers	34.65	36.55
Class IV minibus	52.60	55.50
Class IV - cars	50.35	53.10
Class IV A	58.75	62.00
Class V > 16 seats	74.10	78.15
Class V up to 16 seats	54.65	57.65
Class V A (i)	114.45	120.70

Class V A (ii)	73.95	78.00
Class VII vans	53.80	56.75

The increases in each fee class are comprised of the 14p increase in payments to VOSA and a 5.4% increase in the fee retained by the test station. This allows for forecast inflation in the period April 07 to March 08 and April 08 to March 09. These forecasted rates are the GDP deflator rates for the relevant periods as this is the index recommended by HM Treasury as reflecting the price increases for all domestic goods & services.

As the increase in MOT fee payments is roughly in line with inflation, we do not expect to see a significant change in the number of people willing to pay for MOTs at the maximum price.

There are costs associated with setting the fee maxima too low. If some people are willing to pay a certain price for MOT tests, and test stations would be able to operate given that price, but are unable to offer tests below that price, then failing to increase the maxima to this price will distort the market. Given that the last review of costs was comprehensive we feel that an increase in line with inflation will enable the MOT maxima to remain at an appropriate level.

If the maxima were to stay the same, and this led to a decline in the number of garages operating as MOT testing stations, there would be costs imposed on motorists and society. These include the journey time and money costs if some motorists had to travel further to take MOT tests and the associated environmental costs. Some motorists who would otherwise incur these (time and money) costs may avoid these by driving without an MOT, which could impose road safety and environmental costs on wider society. Furthermore, as VOSA's costs have increased over time, an increase in the pad fee is necessary to ensure that VOSA are able to offer the same quality of service. A fall in the quality of service might enable more unroadworthy vehicles to pass MOT tests (due to a fall in the quality/frequency of checks) which is likely to impose accident costs and the cost of increased emissions upon society.

Similarly, an over-zealous increase in the MOT fee maxima could lead to some motorists avoiding the cost of the test by breaking the law and not taking the test, which would lead to societal road safety and environmental costs. As MOT tests make up a small proportion of the costs of vehicle use a small increase in the test fee is unlikely to influence a significant number of people's decision on whether or not to own and run a vehicle legally.

It is generally recognised that the increases in the fee maxima help the MOT test stations to cover the costs of undertaking the MOT testing of vehicles. Businesses and individuals are therefore well used to planning for the increases in fee maximums and as many test stations do not charge the maximum fee for a test the very minimal changes in the fee maxima that are proposed should not cause any difficulties for businesses or individuals. In real terms (i.e. accounting for the effect of inflation) the cost of an MOT test will not have changed significantly, suggesting that the proposed fee increases will not increase costs to motorists or income to testing stations.

The requirement to meet prescribed roadworthiness standards has been in force since the 1960s and should feature in businesses' projected costs. We have calculated that a small business with, for example, ten vans under 3,500kg can expect to pay a maximum £ 2.95 x 10 or £29.50 per annum extra in testing fees; i.e. the cost of having one of its vans tested could rise by £2.95 from £53.80 to £56.75

The actual fee for the MOT tests is in fact an extremely small proportion of the annual cost of running a motor vehicle. Insurance, tax, maintenance, fuelling costs and depreciation in value with age are far more significant factors in the motoring related costs of businesses.

Many MOT garages offer discounted test fees and it is likely that many will choose not to pass the full increases onto their customers.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes/No	Yes/No
Small Firms Impact Test	Yes/No	Yes/No
Legal Aid	Yes/No	Yes/No
Sustainable Development	Yes/No	Yes/No
Carbon Assessment	Yes/No	Yes/No
Other Environment	Yes/No	Yes/No
Health Impact Assessment	Yes/No	Yes/No
Race Equality	Yes/No	Yes/No
Disability Equality	Yes/No	Yes/No
Gender Equality	Yes/No	Yes/No
Human Rights	Yes/No	Yes/No
Rural Proofing	Yes/No	Yes/No

## Annexes

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