

DVLA Fees Revision

**The Motor Vehicles (Driving Licences) (Amendment) Regulations 2007
(SI No XXXX)**

**The Road Vehicles (Registration and Licensing) (Amendment) Regulations 2007
(SI No XXXX)**

Final Regulatory Impact Assessment

Introduction

1. To continue with the revision of the Agency's simplification of fee structures commenced in 2003 and move towards a closer alignment between the cost of activities, fees levied and those funding the costs involved.
2. Any changes resulting from the three consultations of 15 August 2004, 28 April 2006 and 8 December 2006 will affect motorists in the UK. The changes are being introduced by the Department for Transport for Great Britain. Any legislation required as a result of the changes affecting the driver licensing fee structure in Northern Ireland will be dealt with by the Department of the Environment (Northern Ireland) (DoENI). It is expected that DoENI will maintain driver fee levels broadly at parity with Great Britain.

Purpose and intended objectives of the measures

3. The 10-yearly renewal cycle for photocard licences will commence in 2008. Photographs have to be renewed every 10 years to ensure that the card continues to contain an accurate likeness of the licence holder. Remaining paper licences in circulation need to be recalled so that similarly robust checking processes can be employed for all drivers as those that were introduced in 1998 with the introduction of the photocard licence. New photocard licences can then be issued, providing significant benefits for the integrity and security of the drivers system. Technology improvements should provide us with added assurance that each register entry is unique, so that identity fraud and driving whilst disqualified should be minimised. For the purposes of these proposals and to arrive at a calculation of the indicative fee levels, we have assumed that this recall exercise will involve around 12 million paper licences over a two year period. The paper licence recall and photocard renewal exercises together are estimated to increase costs by between £75m and £95m per annum during the paper licence recall years – reflecting roughly equal increases in cost.
4. Accuracy of the records is critical for DVLA to provide a better basis for enforcement activities. Any inaccuracy in the record hinders enforcement by the police and courts for driving offences, including moving traffic offences and tracing offenders stopped by the police.

Background

5. DVLA is responsible for the accuracy and administration of both the driver and vehicle registers in Great Britain and the vehicle register in Northern Ireland. It is required to levy fees to cover operational costs and the review aims to achieve this in an effective and equitable way for our customers. The last change in fees (some increased and some reduced from previous levels) took effect in March 2004, so that by the time the changes arising from the 2006 consultations take effect in May 2007, the fees will have been stable for a three-year period.
6. The last fee review, conducted in 2003, brought together the costs of the driver licensing and vehicle registration systems that had historically been considered separately. The new fee structure was set to recover the combined costs by amalgamating both the driver and vehicle fees in a single fund. This was given legal underpinning through the Department for Transport (Driver Licensing and Vehicle Registration Fees) Order 2003 (the 2003 Fees Order) made under section 102 of the Finance (No.2) Act 1987. This Order specifies the functions in respect of various vehicle registration and various driver licensing functions of the Secretary of State, the costs of which may be recovered when setting the fees relating to driver licensing and vehicle registration. In particular it provides that costs relating to vehicle registration may be recovered when setting driver licensing fees and vice versa. The principles established at the time of the 2003 review were:
 - to simplify processes for the motoring public and DVLA
 - to encourage driver registration and reduce burdens on learner drivers
 - to facilitate e-services through simplified transactions and
 - to ensure offenders cover the full processing costs of issuing of new licences for them based on the 'user pays' principle

Rationale for government intervention

7. The changes seek to minimise the risk that DVLA will be unable for financial reasons to undertake the activities needed to secure the accuracy of its vehicle and driver registers and to avoid instability in its funding regime.

Policy

8. The prime DVLA contribution to the Department for Transport (DfT) road safety objective is to keep accurate vehicle and driver registers, with any potential impact on record accuracy given careful consideration when new initiatives are proposed. Introducing a fee for these recall transactions might not only trigger non-compliance on recall but also discourage timely notification or amendment with a resultant detrimental effect on our record accuracy. The 10-yearly renewal cycle is a legislative commitment under section 99(2A) of the Road Traffic Act 1988 and DVLA needs to cover the costs through levying fees as provided for by the 2003 Fees Order mentioned above.

Financial

9. DVLA is progressing developments in electronic transaction handling and provision of customer focused services through e-channels. The fee cover for these changes was largely provided by the 2003 fees re-structuring. However, the cost pressures arising from the need to renew the ten-yearly photocard licences and the replacement of paper driving licences with the more secure photocard licences mean that 'do nothing' is not an option.
10. The revision of the fees structure in these proposals aims to provide adequate cost coverage not only for DVLA's on-going operations in terms of systems redevelopment, but also the new initiatives noted above. The revised fees structure will spread the cost burden across both current and proposed fee bearing activities and will therefore reduce the risk of income shortfalls due to over dependency on a single transaction activity (the vehicle first registration fee). The proposed implementation across a two year period reflects most accurately the anticipated cost profile that DVLA is forecasting and complies with HM Treasury fees and charges guidance that discourages averaging across more than one year of fee levels. This represents a risk for DVLA, but the cost forecasts are robust enough to justify this two-year position – it has the additional benefits of transparency and allows better planning for all parties.

Options included in the 28 April 2006 consultation

11. DVLA is committed by statute to the ten-yearly renewal cycle of the photocard driving licence. A free of charge recall of paper licences is proposed to improve significantly the accuracy and security of the drivers register and driving licences.. Action has to be taken to ensure that the costs of these initiatives are covered. In addition, DVLA has to replace its ageing drivers and vehicles registration systems.

Option 1

- **Ten year renewal of photocard driving licences:** This option proposed a fee to cover the costs of the ten-yearly cycle of renewal of the existing photocard licences. The fee would be set at a level to absorb direct costs and overheads on an ongoing basis. An indicative fee would be around £19, in line with the current duplicate driving licence fee.
- **Exchange paper driving licence for photocard driving licence:** Reduce from £19 to free.
- **Annual registration fee:** None
- **First driving licence issue:** Increase the fee from £38 to £68.
- **First vehicle registration fee:** No change to first vehicle registration fee is proposed.

Option 2

- **Ten year renewal of photocard driving licences:** As with Option 1.
- **Exchange paper driving licence for photocard driving licence:** As with Option 1.
- **Annual registration fee:** As with Option 1
- **First driving licence issue:** Increase the fee from £38 to £45.

- **First vehicle registration fee:** Increase the first vehicle registration fee from £38 to £45.

Option 3

- **Ten year renewal of photocard driving licences:** As with Option 1.
- **Exchange paper driving licence for photocard driving licence:** As with Option 1.
- **Annual registration fee:** Introduce an annual registration fee. This fee would normally be collected alongside the payment of MoT fees. The result of this would be minimal (if any) further administration costs for the vehicle keeper. This change would encourage vehicle keepers to update the registers in a timely manner. The indicative fee level is around £3.00 and depends on how much of the other fees are subsumed into the annual fee (the £3.00 is calculated to cover register maintenance only).
- **First driving licence issue:** Reduce the fee from £38 to £29.
- **First vehicle registration fee:** Reduce the first vehicle registration fee from £38 to £29.

12. Each of the three options was calculated to deliver the same overall fees total, although clearly the impact between stakeholder groups varied.

Final proposals after the three consultations

13. A full report on feedback received from the 28 April 2006 consultation is available on the DVLA website. In addition, a summary was circulated to all that responded. During the 8 December 2006 consultation with key representational organisations and following ministerial consideration, the proposed fee structure included at Annex A was compiled. This has the following key features:

- The fee for first driving licence (provisional or overseas exchange) increases from £38 to £45 in the first year, then to £50 in the second year. This is significantly less than the proposals included in option 1 of the 28 April 2006 consultation, but more than the other two options. This reflects a balanced approach advocated by many of the respondents. The fee for reinstatement of revoked licences stays in line with those for new licences.
- The fee for duplicate driving licences tracks the above increases, rising to £22 and £25 in the two years – the fee for removal of endorsements remains in line with the fees for the duplicate.
- The new fee for the ten year renewal of driving licences will apply to all photograph renewals and related card issues and is set at £10. As a result, to provide a smooth transition and encourage those with paper licences currently to replace these with photocard licences (smoothing DVLA transaction volumes and encouraging the take-up of the more secure licences to the benefit of individuals and accuracy of the DVLA register) the fee for such transfers reduces from £19 to £10 immediately, although the ten year renewal cycle does not commence until June 2008.
- The fees for offenders rise roughly in line with those for first driving licence to ensure that they continue to cover their additional costs in full and hence rise as follows. Following disqualification from £50 to £60 then £65 in the second year and for high risk offenders from £75 to £85 and then £90.

- The fees for first vehicle registration rise from £38 to £50 in the first year, then to £55 in the second year.
 - The fees for duplicate registration documents track this rise in first registration fees and rise to £25 – but stay at that level in the second year.
14. The overall fee envelope stays constant in terms of the cost coverage, although the final proposals represent a number of small adjustments and a balance between the three original options consulted upon. These were returned to all the respondents of the 28 April 2006 consultation. Further comments received during the 8 December 2006 consultation from four respondents, registered disappointment that DVLA had not pursued the option of introducing an annual vehicle registration charge but had imposed large increases on vehicle first registration and driver first licence fees without spreading the impact wider. The introduction of an annual vehicle registration charge is not possible without new primary legislation being put in place.

Costs and benefits

Business sectors affected

15. All sectors of business that register new or imported used vehicles with the registration authorities, DVLA for GB and Driver and Vehicle Licensing, Northern Ireland (DVLNI) will be affected. It is our assumption that as there is only an effective change in first vehicle registration fee under option 2, and the transactions themselves are neutral in administrative terms, there would be no tangible impact on vehicle manufacturers and retailers under options 2 and 3 for most business sectors. However, the proposed reallocation of the funding stream from a first registration charge alone to a reduced first registration charge together with a new annual registration charge (option 3) would have impact on four areas of business:
- car and light goods fleet operators and business car users (48% of new registrations)
 - commercial goods vehicle operators (1.8% of new registrations)
 - agricultural industry (0.5% of new registrations)
 - bus companies (0.4% of new registrations)
16. Our initial analysis shows that there is likely to be an overall negative impact for businesses in the region of £11m per annum in increased fees cost, although this will affect various sectors of business in different ways. This will depend on the frequency with which they renew their new (or imported used) vehicle stock.
17. It is the assumption in this proposal that driving licence fees are a matter for individual drivers. We acknowledge that some organisations choose to pay their drivers' fees but, in the overall context of this consultation, the effects on the various business sectors will be negligible.

Assumptions

18. All of the options consulted on by DVLA, and the final package decided upon in the light of the consultations, were framed to deliver the same cost cover for renewal of ten year photocard licences and the re-call of paper licences. The

financial model used to compare income with costs contains the following main assumptions about the volume of transactions that DVLA will process annually:

• vehicle first registrations	3,000,000
• annual vehicle registrations (excluding Statutory Off Road Notification ((SORN))	32,000,000
• non-SORN exemptions proposed	5,300,000
• photocard renewals (based on 2008-09 forecast volume)	500,000

19. The intention for the fees restructuring is purely to cover the anticipated costs of the changes indicated in this document. These have been estimated around £44.2 million on an annualised basis, but the current forecasts being included for the next two years in our business plans (which will be published on the DVLA website) are more accurate and allow us to provide a two year Fees profile with a good degree of accuracy. The proposed fees provide cost coverage on that basis.

Benefits in the revised Structure

20. The majority of changes are to existing fees. The only new fee being introduced is the £10 chargeable on renewal of the ten year photocard licence.
21. The decision to charge for a ten year photocard licence renewal gives DVLA the benefit of ensuring, on a user pays basis, that the extra costs of the renewal process are met without imposing any burden elsewhere in its fee charging structure.

Costs for the Proposed Structure

22. The annual extra operational costs for the ten-year renewal of photocard licences is £15.4 m with an initial set up cost of £9.9 million.
23. The initial changes necessary in advance of the paper licence recall (as a specific project), within the 2008/09 year, will add costs of £6.8 million.
24. In 2007/08 and 2008/09, there will be key additional costs in operational investment, in particular in systems update and the integration of the GB and Northern Ireland vehicle systems of around £22 m.

Equity and fairness

25. These proposed amendments to the fee structure take forward the re-structuring of DVLA's fee charging regime that began with the 2003 fee changes. The amendments continue with the principle of fair and equitable distribution of costs and seek to cover costs in the fairest way possible whilst ensuring that changes in fees do not impede policy delivery.
26. In the 28 April 2006 consultation we maintained that the fairest distribution of fees across all users of the services would be achieved through the introduction of an annual fee to cover all routine maintenance of the registers and reduction of first registration or driving licences to levels that fully reflected their direct costs.

The balance of the consultations feedback was that our stakeholders are not yet ready for such a change and that the balancing of increases between drivers and vehicles was seen as a more equitable solution all round.

Small firms impact

27. DVLA believes that the overall impact of the proposed change to the vehicle registration fee structure on small businesses will be low. The proposed first registration fee of £50 per vehicle (rising to £55 in the second year) will only be levied upon the registration of new or imported used vehicles (with all existing exemptions retained) and this represents a marginal impact on the costs of purchase of new or imported used vehicles. Hence, it is not anticipated that this fee change will affect competition or mean that businesses will no longer be able to continue as going concerns.
28. Impact will be greatest on businesses that purchase large numbers of brand new vehicles – such as car leasing or vehicle rental companies. For these companies there is indeed an additional cost, but this might be recouped through the leasing and rental charges levied. The additional costs to the end consumer of such a small additional amount relative to the capital cost of the car that is being recouped will be minimal. Those that will bear the costs will very much be motorist users and this reflects the continuing endorsement from our consultations that the “user should pay”.

Competition assessment

29. The fleet, leasing, bus and haulage markets are all broad-based with no one firm or small group of firms, holding a pronounced market share. Within each of these sectors, no firm would be affected to any greater degree than its competitors of comparable size. The cost impact should be in direct relation to the size of the vehicle-related aspects of the business.

Enforcement and sanctions

30. There will be no new enforcement implications or sanctions needed directly as a result of the implementation of these proposals. The position in respect of the ten year renewal still has to be finally established, but photocard that go past the expiry date printed on them will no longer be valid licences. Hence, although the driving entitlements themselves will remain intact (i.e. drivers will not have to re-sit driving examinations unless required to do so for other reasons, e.g. disqualification) the motorists will be committing an offence if they drive a vehicle on a public road without such renewal. The position for the other changes do not impact on enforcement, as they are merely changes in fee levels.

Consultation

31. On 15 August 2004 DVLA issued 390 consultation documents to motoring organisations and various stakeholders. DVLA received 924 responses. On 28 April DVLA issued 433 consultation documents to motoring organisations, MOT organisations, garages and various stakeholders. In addition the document was published on DVLA’s website, accessible directly or via directgov, and this attracted 205 hits. Of the various representative organisations and stakeholders,

there were 43 responses, although only 19 of these expressed a preference in terms of the options included. There were 20 individual members of the public who also expressed views on the fee proposals. On 8 December 2006 DVLA consulted with the respondents to the April 2006 consultation. There were four responses from organisations.

Analysis of responses

32. It is clear from an analysis of the responses received that:

- the principle of “user pays” continues to be broadly supported, as it has been in each consultation to date;
- there was strong feedback that vehicles not subject to either a Vehicle Excise Duty (VED) charge or SORN registration should not be subjected to any potential annual fee (should this option be taken forward at any stage in the future);
- the form of the current proposals generally supports better regulation in that the cost of compliance (predominantly administrative costs) has been reduced to a minimum through consultation with industry groups;
- DVLA efficiency gains should continue to be fully explored to ensure that any overall increases in funding generated are transparently justified in terms of real and unavoidable costs.

Conclusions

33. It would seem clear from the consultation feedback and discussions with the representative organisations that the changes involved in fee levels represent only a very small proportion of motoring costs - all options are both feasible and fairly acceptable, especially with no fee changes having taken place over the last three years.

34. Most comment was received in respect of the “annual fee” (option 3), though organisations were fairly evenly split between those in favour and those against.

35. In respect of collection mechanism of any “annual fee”, the majority preferred collection alongside the VED transaction rather than alongside MoT, although it was mainly garages who responded against the MoT option and the processes anticipated would obviate most of the disadvantages perceived.

36. It was clear that whilst there was far more positive interest in the introduction of an annual fee than seen in the 2004 consultation, the consensus remains in terms of fee level increases for existing fees for the time being. And the majority favoured a balanced set of rises across the fees rather than the concentration on any single fee-paying group.

37. The resulting proposals build on this direction and on a number of specific comments made in the consultation feedback, for example about ensuring the offenders continue to meet their full additional costs.

Implementation and Delivery Plan

38. The fees changes are intended to come into force on 1 May 2007 and 1 April 2008, as set out in Annex A.
39. Systems changes are in hand to process transactions at the new fee rates on the appropriate dates. Stakeholders have been given notice of the changes and will have made changes to their systems where necessary.

Post implementation review

40. DVLA monitors its own financial position continuously. Its fees structure is formally reviewed on an annual basis, although under the current proposals that set the fees out for the next two years, the next formal review will be in 2008. Interested parties are consulted as part of this review process.

Summary and recommendation

41. DVLA wishes to amend its fees structure to continue the restructuring begun in 2003. The fees must be set so as to continue to meet the objective of recovering the costs of DVLA's activities. However, the setting of an appropriate fees structure now will provide the funding necessary for the ongoing developments that support DVLA's policy objectives by accuracy of its driver and vehicle records aiding enforcement from the record and contributing to greater road safety.
42. Three alternative fee structures were proposed in the consultation based on indicative fee levels with the possibility that the mix of fee levels could be adapted and the precise levels finalised for the final proposals. In the responses to the April 2006 consultation, option 1 did not receive any significant support. option 3, whilst receiving good support in principle, is not feasible at present without new primary legislation. Thus an amended version of option 2 was proposed. The final structure and level of fees is now based on that amended version and takes into account further input from respondents, other stakeholders and internal discussions.

Declaration and Publication

Ministerial Declaration

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible minister.

Dr Stephen Ladyman, Minister of State, Department for Transport

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Annex A: Proposed Fee Levels

The fee structure and proposed fee levels for Drivers are:

TRANSACTION	CURRENT FEE	PROPOSED FEES	
		07-08	08-09
<i>Driving licence:</i>			
First Driving Licence (including Provisional to Full)¹	£38	£45	£50
Renewals from Age 70 or for Medical Reasons²	Free	Free	Free
Replacement DL for change of details	Free	Free	Free
Duplicate DL for lost / stolen or destroyed	£19	£22	£25
<i>Exchange Licence:</i>			
Paper Licence traded in for POL DL³	£19	£10	£10
Add Entitlements⁴	Free	Free	Free
Remove Endorsements⁵	£19	£22	£25
Paper Licence Recall Fee⁶	N/A	N/A	N/A
10-Yearly Renewal of POL DL	N/A	N/A	£10
Vocational DL⁷	Free	Free	Free
<i>Driving Licence Renewals:</i>			
After revocation	£38	£45	£50
High Risk Offenders after Disqualifications	£75	£85	£90
After Disqualification	£50	£60	£65

For the Vehicles fees, the structure and proposed fee levels are:

TRANSACTION	CURRENT FEE	PROPOSED FEES	
		07-08	08-09
First Vehicle Registration	38	50	55
General Vehicles			
Replacement Registration Document (details change)	19	25	25

¹ Prior to 2003, this transaction comprised two separate charges adding up to £41

² This transaction was made free of charge in 2003

³ This supports the policy for paper licence recall, but precedes the recall to encourage earlier exchanges.

⁴ This transaction was made free of charge in 2003

⁵ Note that this will no longer be applicable when the counterpart is abolished.

⁶ It is not currently anticipated that, if the paper licence recall is approved, any recall would take place before April 2009, but the current proposals are that if it is triggered then it would be free of charge.

⁷ This transaction was made free of charge in 2003.