

# FINAL REGULATORY IMPACT ASSESSMENT

## DVLA FEES REVIEW

### **Title of proposal**

1. Introduction of a revised and simplified fee structure. Amendments required to the Motor Vehicles (Driving Licences) (Amendment)(No.5) Regulations 2001 and the Road Vehicles (Registration and Licensing) Regulations 2002, and an Order will be required under section 102 of the Finance (No 2) Act 1987.

### **Purpose and effect**

2. To introduce a revised and simplified fee structure whilst continuing to meet the objective of recovering the costs of the Driver and Vehicle Licensing Agency's (DVLA's) activities through the fees levied. Historically, the costs of the driver licensing and vehicle registration systems have been separately considered. The changes will be underpinned by amalgamating both the driver and vehicle fees in a single fund. The main changes include a revision and realignment of the fee level for the costs associated with first registration of a driver and a vehicle and the reintroduction of the fee to replace vehicle registration documents which have been lost or stolen. This fee has been set in line with that for replacing missing driving licences. The proposals will affect all motorists but seek to do so in an equitable manner.
3. Changes resulting from the consultation will affect motorists in the UK. Any changes affecting the driver licensing fee structure in Northern Ireland will be dealt with separately by the Department of the Environment in Northern Ireland

### **Background**

4. The DVLA is responsible for the accuracy and administration of both the driver and vehicle registers in Great Britain and the vehicle registers in Northern Ireland on behalf of the Secretary of State for Transport. We are required to levy fees to cover our costs and the review aimed to achieve this in an effective and equitable way for our customers.
5. Previous fee reviews have considered the costs of the driver and vehicle registration scheme separately. This review considered the schemes together as the two processes become more integrated and reflects the similarity of the processes involved in initial registration in the driver and vehicle registration systems.
6. The revised fees take account of the need to provide a fair system that will absorb increased costs such as those associated with drivers who require medical investigations to establish their fitness to drive and the Government's target to deliver services electronically. There is a general desire to reduce the burden for those least able to pay and, specifically, to ensure a reduction of financial barriers to those seeking employment opportunities as lorry and bus drivers

### **Risk Assessment**

7. The changes seek to minimise the risk that the DVLA will fail to meet its financial objective to cover its costs, and support the important, but in some instances conflicting, aim of improving the accuracy of its records.

### **Policy Risks**

8. One of the main tools DVLA has to support the fight against motoring crime is the accuracy of its records. Continuous efforts are made to improve accuracy and initiatives that might impact upon the accuracy of the registers are given very careful consideration. In order to improve the accuracy of the records, consideration has been given to:

- providing certain activities such as notification of changes to personal details and renewal of driving licences for drivers aged over 70s free of charge. We consider a fee for these services may discourage notification of changes with a resultant detrimental effect on the accuracy of our records;

- the need to set initial driving licence costs at a level which does not discourage new drivers from compliance with the requirement to hold a licence.

9. The risk is that the drive to increase the accuracy of the records will be undermined if these measures are not introduced. However, it will not be possible to deliver these policy aims unless fee increases are introduced for other activities because of the overarching need to ensure a

balance between costs and fees.

10. The Government is keen to reduce burdens for the lorry and bus industry as a whole. There are concerns about shortages of vocational drivers in an increasingly competitive market. The industry estimates that there is currently a shortage of 40,000 drivers across the transport and distribution sector. The industry also estimate that the current level of driver recruitment, at around 25,000 drivers per year, is around half the level actually required. There is a risk that the fees currently charged -£29 for obtaining a provisional vocational driving licence entitlement, £12 on passing a vocational driving test to include this entitlement on the driving licence and £29 for the five-yearly renewals of the vocational licence after the driver's 45<sup>th</sup> birthday- may act as barriers to those seeking new employment as lorry or bus drivers.

#### **Financial Risks**

11. Certain cost pressures are already evident and clearly will continue. There has been a marked rise in the cost of investigating drivers' medical conditions and demographic changes in the driver population are likely to add to these costs.
12. The government is committed to tackling vehicle crime and a number of initiatives have been identified to further policy aims in this area. Implementation of these initiatives will increase the costs of DVLA's operations.
13. Rapid technological advances are being made and there is growing expectation both within and outside government that departments and agencies will grasp the opportunities provided by these technologies. The Government has a target to provide e-services by 2005. In addition, moves to electronic transaction handling and meeting the needs of changing customer expectations are placing greater pressures on DVLA's cost structure.
14. The review of the existing fee structure provides the opportunity to manage these financial pressures and ensure that they do not jeopardise DVLA's requirement to cover its costs.

#### **Options**

15. Growing cost pressures, particularly in respect of functions supporting driver licensing mean that 'do nothing' is not a realistic option. Action has to be taken to address the imbalance in the accounts of the Agency. In order to counter the risks identified in the preceding section, a number of essential measures will be either retained or introduced. These measures are outlined below and feature in all of the options detailed later.
16. **Replacement Driving Licences and Registration Documents – Free of charge.** Driving licences and vehicle registration documents returned to notify a change of details will remain free of charge. This is to encourage notification of changes, such as a new address, to achieve our policy aim of maintaining accurate records.
17. **Duplicate Driving Licences and Registration Documents in place of lost, stolen or destroyed documents - £19.** Where the registration document (V5) is not available (e.g. lost or not passed on by the previous vehicle keeper) there is no charge for a new document at present. Recent measures introduced to reduce vehicle crime have highlighted the importance of the V5 and prospective vehicle purchasers are strongly advised to ensure that the seller passes on the relevant part of the document at point of sale. To raise the status of the document further and to encourage its safekeeping, a fee of £19 in line with that for replacement of lost driving licences, will be introduced. The fee for replacement of a lost, stolen or defaced driving licence will rise from £17 to £19.
18. **Exchange driving licences – £19.** The fee for an exchange driving licence will be increased from £18 to £19 to bring it into line with the proposed fee for duplicates. This fee will cover transactions such as the removal of expired endorsements and enabling current photocard licence holders to update their photograph if they wish. Exchange transactions to add entitlement, whether provisional entitlement to allow drivers to learn to drive other vehicles, or to add full entitlement following passing of driving tests will be processed free of charge. For those drivers who obtained their provisional licence under the old fee regime but apply for their first full licence under the new arrangements, a transitional fee of £9 will be payable. This sum represents the difference between the old non-inclusive fee of £29 and the new inclusive fee of £38.
19. **Upgrade following Test Pass or Renewal of Lorry and Bus (vocational) driving licences – free of charge.** On passing a vocational driving test a fee of £12 is currently required to include

the entitlement to the driving licence. The requirement to pay for an upgraded licence following test pass will be removed. In addition, the fee to renew vocational entitlements every five years after the age of 45 (and annually after age 65) will be removed. These fees can serve as a disincentive to individuals entering or continuing their career in this sector.

20. **Reissued Driver Licences after disqualification - £75 or £50.** Drivers who meet the High Risk Offender (HRO) criteria i.e. those who have been:

- disqualified twice within a ten year period for any drink/drive offence;

- disqualified for having an excessive proportion of alcohol equivalent to approximately two and a half times the legal limit, in their body, or;

- disqualified for failing without reasonable cause to provide a specimen for analysis

will pay £75 for the reissue of their licences. This fee more accurately reflects the costs of licence reissue following an HRO offence. The fee levied for the renewal of a driving licence after disqualification e.g. those disqualified for drink driving or penalty point "totting" will be set at £50 reflecting the lower administrative associated with this type of licence renewal.

21. **Reissued Driving Licences following revocation.** The fee for reissuing licences following revocation including for those drivers revoked under the provisions of the Road Traffic (New Drivers) Act 1995 and drivers requiring renewal of their vocational entitlement following its revocation by the Traffic Commissioner will be £38. These fees are intended to ensure that those individuals responsible cover the administrative costs of handling and renewing these driving licence types and are set in line with the first provisional licence fee.
22. Four options were identified; all were framed with the aim of ensuring that costs do not outweigh income. The options are also expected to support at least some of the following policy aims: maintaining the accuracy of our records; ensuring costs are borne by those who give rise to them; providing support for vocational drivers and easing the burden on those less able to pay. Table A below identifies the main existing fees and the options for change.

23. **Table A - Main Fees and Option Proposals**

Transaction	Current Fee	Driver Fees			
		Option 1 Fee	Option 2 Fee	Option 3 Fee	Option 4 Fee
Driving Licence:	£29	£38	£37	£36	£48
First Provisional Entitlement	£1	£38	£37	£36	£48
Upgrading after test pass	£2	£38	£37	£36	£48
Renewals at age 70 plus	£2	£38	£37	£36	£48
Duplicate Driving Licence (replace)	£6	£38	£37	£36	£48
lost/stolen/destroyed)	£6	£38	£37	£36	£48
Exchange Licence	£1	£38	£37	£36	£48
- add entitlements	£7	£38	£37	£36	£48
- remove spent endorsements etc	£1	£38	£37	£36	£48
Vocational Driving Licence:	£8	£38	£37	£36	£48
First Provisional Entitlement	£1	£38	£37	£36	£48
Upgrading after test pass	£1	£38	£37	£36	£48
Renewal	£8	£38	£37	£36	£48
Exchanges	£2	£38	£37	£36	£48
	£9	£38	£37	£36	£48

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Vehicle Fees

Transaction	Current Fee	Option 1 Fee	Option 2 Fee	Option 3 Fee	Option 4 Fee
Initial Vehicle Registration	£25	£38	£37	£36	£32
Duplicate Registration Document (replace lost/stolen/destroyed)	Free	£19	£19	£9	£9

*OPTION 1*

24. Reviewing the driver licensing and vehicle registration systems together provided that a new fee of £38 could be introduced for the issue of a first provisional driving licence which will include adding entitlement on successful completion of future driving tests. The existence of two separate fees has placed an administrative burden on both the customer and the Agency during the upgrading of categories to full licence status. This option proposed that one fee be set to cover the cost of both transactions. The new fee is set below the current combined fee of £41, i.e. £29 for a first provisional and £12 for a first full driving licence.
25. Renewal of driving licences at age 70 to be free of charge. Driving licences expire at age 70 and are then renewable for up to three years at a time because medical opinion suggests that health is likely to deteriorate after this age in ways likely to affect safe driving. The Government is keen to relieve the burden from the older driver population by removing the current fee of £6.
26. Vocational driving licence transactions for provisional entitlement, claiming test passes and renewal from age 45 to be free of charge. This proposal expands on those outlined in paragraph 19 by removing the fee for the first vocational licence in line with the measures to reduce the barriers on those seeking employment as lorry or bus drivers.
27. A rise from £25 to £38 for initial vehicle registration fees. This fee has remained unchanged since its introduction in 1998. The effect of the increase is to bring the level of the fee into line with that for first registration of drivers. Current exemptions from the fee would continue to apply.

*OPTION 2*

28. As per option 1 with the exception that the fee levels for first driver and vehicle registration i.e. first provisional and full driving licences, and initial vehicle registration are set at £37. This was achieved by setting the fee for first vocational driving licences at £37 which does not meet the policy objective of reducing barriers to those seeking employment as lorry and bus drivers. In this option, the fee for drivers' aged over 70 can again be abolished

*OPTION 3*

29. The fee levels for first driver and vehicle registration i.e. first provisional and full driving licences, initial vehicle registration and first vocational driving licences are set at £36. To achieve this, the fee for renewal for drivers at age 70 would have to be kept at its current level of £6 which does not achieve the policy objective of providing this service free of charge.

#### OPTION 4

30. The initial registration fee for vehicles is set, broadly in line with inflation since its introduction, at £32 and the first driving licence fee and first vocational driving licence at £48. We are concerned that this proposal does not address the aim to provide a balanced and integrated fee structure that reduces the burden of payment on those least able to pay. It also fails to tackle the risk that the fees act as a barrier to those seeking new employment as lorry and/or bus drivers

Costs \_\_\_\_\_ and \_\_\_\_\_ Benefits \_\_\_\_\_

#### Business Sectors Affected

31. Although some organisations elect to pay their drivers fees, driving licence fees are considered to be a matter for individual drivers. Organisations who elect to pay for their driver's licences such as some lorry and bus companies could see a reduction in their expenditure on vocational licences
32. All sectors of business that register new vehicles with the registration authorities (DVLA and DVL Northern Ireland) will be affected. There may be an indirect effect on vehicle manufacturers and retailers because the proposed increases in the level of the initial vehicle registration fee could reduce demand. However, demand for new vehicles is not so elastic that the change would be anything more than marginal. The proposed increase in the initial vehicle registration fee will, however, have greater impact on four main 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); and
  - Bus companies (0.4% of new registrations)

The reintroduction of the fee for duplicate registration certificates will be borne by individuals and companies who mislay or destroy the document.

#### Assumptions

33. The options below are each framed on the basis that the fees would be sufficient to cover the cost of DVLA's operations. The financial models used to compare income with costs contain the following main assumptions about the volume of transactions that DVLA will process annually
- First Provisional Driving Licences - 0.9 million
  - Duplicate Driving Licences - 0.7 million
  - Renewals at age 70 plus - 1.1 million
  - First Provisional Vocational Licences - 0.1 million
  - First Vehicle Registrations - 2.9 million
  - Duplicate Vehicle Registration Documents - 2.0 million

#### OPTION 1

##### Benefits

34. The main beneficiaries under this option each year will be the one million plus drivers over the age of 70 who renew their driving licence and the 700,000 vocational drivers seeking a first provisional licence to enter their profession. The combined benefit to each of these groups is assessed on an annual basis as £6.5m for drivers over 70 and £2 million for vocational drivers. This option should significantly assist in delivering the policy aims of removing financial burdens from both the older driving population and individuals seeking employment as bus or lorry drivers.

##### Costs

35. The main policy costs that arise from this option are in respect of the first provisional driving licence, the duplicate driving licence, the duplicate registration document and the initial vehicle registration fees. The increase in the first provisional licence from £29 to £38 will increase the costs for new drivers by around £8.5m. However, this sum is more than offset by the corresponding proposal to remove the £12 fee for upgrading the provisional licence on passing the driving test. Therefore, only those 5% of drivers who do not subsequently add the test pass will be affected by this fee increase – at a total cost of £0.4m. The overall reduction in costs for new drivers is around £1.5m.

36. The increase in the fee for issuing a duplicate driving licence when the licence is lost, stolen or destroyed will, it is estimated, affect 700,000 drivers a year. The £2 increase in the fee will therefore generate costs of around £1.4m. Reintroducing a similar fee for duplicate registration documents and setting the fee at £19 will generate total costs of £38m for the 2 million owners it is estimated would need to avail themselves of this service. The rental and leasing industry estimate that around 10% of the total fleet of 2.2 million vehicles may require duplicate documents. This would equate to an annual cost to the industry of around £4.2m. If, however, the policy has the desired effect and encourages greater safekeeping of the registration document than has been anticipated, these estimated costs would fall.
37. The rise in the initial registration fee from £25 to £38 would increase the costs for fleet operators and business car users as a whole (who account for around 48% of new vehicle registrations) by around £18m per annum. A large rental company with a fleet size of 25,000 vehicles, which is changed twice a year, would face additional initial registration costs of £650,000.

38. **OPTION 2**

**Benefits**

39. Drivers over the age of 70 would continue to benefit under this option and, in comparison with option 1, the lower initial vehicle registration fee will benefit purchasers of new vehicles and there is also benefit to new drivers. In monetary terms, the benefit to older drivers remains at £6.5m, those paying the initial vehicle registration fee would see a combined benefit of £2.9m whilst new drivers would together save £1m. Option 2 again removes a financial burden from older drivers and supports the aim of reducing burdens on those seen as less able to pay (new drivers) but does not provide the same level of support to vocational drivers as option 1.

**Costs**

40. The policy costs remain very much as option 1 –slight reductions in the fees for new drivers provisional and the initial vehicle registration fee- with the exception of the provisional licence for vocational drivers. The increase in the fee from £29 to £37 to add provisional vocational entitlement will increase the costs for those drivers (but often met by their employer) by £0.6m each year. However, this cost will be more than offset by the savings generated by the linked proposal to make renewal and exchange licences for vocational drivers free of charge.
41. The impact on the business sector of the lower initial registration fee would be to reduce the cost increase by the order of £1m (down from £18m to £17m). The costs of the initial registration fee for the business quoted at paragraph 40 above would be marginally reduced.

**OPTION 3**

**Benefits**

42. This option increases the benefits to those seeking first provisional licences and purchasing new vehicles. In comparison with option 1, drivers would benefit by around £2m whilst those purchasing new vehicles would pay £5.8m less. This option offers no savings for older drivers and, therefore, achieves fewer of the policy goals.

**Costs**

43. The one main policy cost inherent in option 3 is the retention of the fee for driving licence renewal for those aged over 70. The fees for all provisional licences and the initial vehicle registration fee are set at £1 lower than option 2. The reduction in the initial registration fee would bring the costs for business down by a further £2m but again would have very little impact at the level of individual businesses.

**OPTION 4**

**Benefits**

44. The reduction in the initial vehicle registration fee would produce combined savings, compared with option 1, of £17.3m for purchasers of new vehicles. There are no other benefits and, apart from some support for vocational drivers, this option delivers none of the policy aims.

**Costs**

45. This option imposes a significant increase in costs for the new driver and vocational driver (first provisional fee up from £29 to £48), which even the abolition of the fee for exchanging the licence once a test has been passed, does not offset. The initial vehicle registration fee will still cost the business sector around £10m per annum and the business in the example at paragraph 40, approximately £350,000 each year

### **Equity and Fairness**

46. Under the existing structure, fees are disproportionately levied for certain services to recoup the costs of maintaining the driver and vehicle registers. The amendments aim to provide a more fair and equitable distribution of costs that take account of demographic changes.

#### *OPTION 1*

47. The main group to benefit under this option will be drivers aged 70 and above as the fees for licence renewals for older drivers are removed. Vocational drivers will be the other significant group of beneficiaries as their first provisional licence is made free of charge. In comparison with other options, purchasers of new vehicles will be most disadvantaged as the initial vehicle registration fee is set at its highest level -£38- in this proposal.
48. The main group to benefit under this option will be drivers aged 70 and above as the fees for licence renewals for older drivers are removed. Vocational drivers will be the other significant group of beneficiaries as their first provisional licence is made free of charge. In comparison with other options, purchasers of new vehicles will be most disadvantaged as the initial vehicle registration fee is set at its highest level -£38- in this proposal.

#### *OPTION 2*

49. Older drivers again benefit under this option by the removal of post-70 renewal fees. By comparison with option 1, vocational drivers will be most affected due to a fee of £37 being set for a first provisional licence.

#### *OPTION 3*

50. There is no marked impact on any particular sector or group of people under this option.

#### *OPTION 4*

51. This option favours purchasers of new vehicles at the expense of new drivers. The initial vehicle registration fee is set at £32 and is lower than in any of the other options. In contrast, in order to ensure that costs remain in balance with fee income, the fee for a first provisional driving licence has been set at £48.

### **Small Firms' Impact Test**

52. The impact on small businesses is considered to be insignificant. The higher fee for initial vehicle registration will affect any business purchasing a new vehicle but the increase is so small, in comparison with the overall cost of a new vehicle, as to be negligible.
53. Hauliers and bus operators are likely to benefit from the proposed reductions in fees for vocational licences. Any small business meeting the licence costs of new drivers will also benefit.

### **Competition Assessment**

54. 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 any of its competitors of comparable size. The costs would fall in direct relation to the size of the business.

### **Enforcement and Sanctions**

55. There will be no enforcement implications or sanctions as a result of the implementation of these proposals.

### **Consultation**

56. DVLA issued 520 consultation papers in May 2003. In addition, over 800 'hits' were recorded against the consultation paper on the Agency's website. 73 responses have been received. The vast majority of companies and lobbyists who expressed a preference supported option 1. Support for option 1 came from the haulage industry, disability organisations, historical vehicle

clubs and some motoring organisations. Representatives of the motor trade and the rental and leasing industry were the main opponents of option 1. Information and costs provided by industry representatives has been included in the RIA.

#### **Monitoring and Review**

57. DVLA monitors its own financial position continuously. Its fee structures are formally reviewed on an annual basis. Interested parties are consulted as part of this review process.

#### **Summary and Recommendations**

58. DVLA wishes to introduce a revised and simplified fee structure. The fees must be set so as to continue to meet the objective of recovering the costs of DVLA's activities. However, there are a number of policy objectives e.g. accuracy of DVLA's records, that can be supported by an appropriate fee structure. Four alternative fee structures were identified.
59. Option 1 is recommended because it meets the policy aim of reducing the burden for those least able to pay and minimises the risk that the DVLA will fail to meet its financial objective to cover its costs. It also supports the aims of improving the accuracy of our records; ensures costs are borne by those who give rise to them and provides support for vocational drivers. Additionally, option 1 received the greatest and most broad-based support.

#### **Ministerial Declaration**

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

Signed by the responsible Minister

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