Driver & Vehicle Licensing Agency

Driver & Vehicle Licensing Agency Annual Report & Accounts

2015-16

Driver and Vehicle Licensing Agency
Annual Report & Accounts 2015-16

Presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed 19 July 2016

HC373

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This publication is available at www.gov.uk/government/publications

Any enquires regarding this publication should be sent to us through our website on gov.uk.

Print ISBN: 9781474133333

Web ISBN: 9781474133340

ID P002811690 07/16

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

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Non-Executive Chair's introduction

I am delighted to introduce you to the DVLA's Annual Report & Accounts which sets out the agency's performance and achievements for the year.

During the year the agency put more of its services online. The new services provide the customer with a simpler and more efficient way of using public services. DVLA's digital business is moving at a fast pace and it will continue to do so over the coming years.

In 2015, DVLA successfully made a major change to its operating structure, transferring its previously outsourced IT to an in-house service. A major part of this significant project has been the transfer of skilled IT staff from the previous supplier to DVLA, providing business continuity and IT expertise into the business.

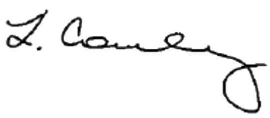
DVLA is one of the largest employers in South Wales, providing employment for around 5,430 staff in Swansea. Developing the IT skills of our staff in order to deliver our strategic plan is important to DVLA and we work with local universities to help achieve this. Swansea University has agreed to provide training for agency staff on their Computer Science Foundation course. In addition, 2 Cardiff Business School students successfully secured a 20 week placement at DVLA. During the year, 37 staff across the agency successfully completed apprenticeship schemes.

DVLA's partnership with TechHub Swansea continues to provide a facility for future innovation and digital services. The TechHub moved to a new building during the year, which is part of an Urban Village regeneration scheme in Swansea's city centre. The TechHub partnership allows DVLA to offer placements and projects to undergraduates.

In 2015-16, the agency focused on increasing the percentage of women in our senior grades which currently stands at 25% across the agency and 40% on our Executive Board. We have been working on a number of initiatives to address this, including participating in cross civil service career development programmes aimed at under-represented groups.

We have been working with the Black, Asian and Minority Ethnic (BAME) community to attract more staff into the agency, representation currently stands at 0.9%. The agency has also been working with the Welsh Government Equality Network and the Regional Equality Group and local community groups to provide work placements, insight into recruitment and competency based vacancies.

This has been another successful year for the agency. There are exciting times ahead and I look forward to working with the Board, Executive Team and staff to build upon the successes of 2015.



Lesley Cowley OBE
Non-Executive Chair
6 July 2016

Chief Executive's message

The last year has been both a historic and exciting time for DVLA. Our transition from IT outsourcing to managing and delivering our IT in-house was an overwhelming success, a first at this scale in government.

The transition of our IT was carried out without any inconvenience to our customers and staff; this was as a result of both the hard work and commitment of our staff and the support of my Executive Team.

It was out with the old – abolition of the paper counterpart to the photocard driving licence and in with the new – the introduction of new online services for our customers.

Continuous improvement and the introduction of new digital services has made it easier for customers to transact with us. Digital take-up has increased to 92.3% (87.8% in 2014-15).

The Roadside Survey on VED evasion published in November 2015, estimated a compliance rate of 98.6%, a 0.8% reduction since the last survey in 2013. We have, however, collected more VED income than was forecast by the Office for Budget Responsibility (OBR) as detailed in the Section 2 Report on page 65. We have taken steps to look at why evasion levels have increased and are developing a strategy to address this.

We exceeded our 10% efficiency saving for the year against the 2013-14 baseline of £405 million, with a total reduction of 19% equating to £78 million.

It was also a year of new opportunities. The significant improvements in our personalised registrations services took revenue over £100 million for the first time. We were successful in securing new business from Her Majesty's Revenue and Customs (HMRC) to produce and mail 4 million tax return reminders. Our aim is to be recognised as a first class business provider and play a key role in delivering efficiencies and cost savings across government.

The numerous awards, recognition and accreditation that DVLA and staff have received over the year has been outstanding, I am proud to acknowledge them.

Next year will be even more challenging for DVLA. The digital world is fast paced and expectations from customers are growing. I am confident that we can continue to provide excellent services to our customers both digitally and through alternative service channels.

I look forward to next year.

Oliver Morley
Accounting Officer and Chief Executive, DVLA
6 July 2016

Highlights for the year

A first in government

In September 2015, DVLA ended 30 years of IT outsourcing and became the **first in government to move away from a large scale IT contract**. The change will transform the way in which DVLA delivers its business.

Abolition of the paper counterpart

DVLA have stopped issuing the paper counterpart to the photocard driving licence. Paper counterparts are no longer valid. Customers can now **view and share their driver information online**.

Digital services

Over the last decade, DVLA has become a **multi-award winning government organisation**, providing excellent services to its customers. 2015-16 was our busiest year on record and **digital take-up increased to 92.3%** .

In 2015-16, over 4 million customers applied for a driving licence online, 2% up on the previous year and 70% applying for their first licence online.

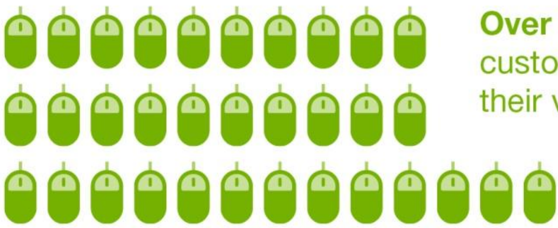
Over **33 million customers taxed their vehicle online**. More than **10 million people** have taken the opportunity to manage the cost of their vehicle tax by taking up our **new direct debit service**.

In 2015-16...

digital take-up increased to

92.3%

over 4 million customers applied for a driving licence online



Over 33 million customers taxed their vehicle online

In 2015-16, DVLA introduced 10 new online services. Customers can:

- check their driving licence
- share their driving licence information
- notify the disposal of a vehicle
- notify the acquisition of a vehicle
- notify acquisition/disposal to a new keeper
- access drivers data – business to business service
- pay their enforcement penalty payment
- take a personalised registration off a vehicle
- put a personalised registration on a vehicle.

Efficiency

DVLA committed to achieve a 10% (£40.5 million) reduction in net operating expenditure by 2015-16 against the 2013-14 baseline of £405 million. **The agency has exceeded the 10% target with a total reduction of 19% equating to around £78 million**.

a reduction in net operating expenditure of

19%

equating to around

£78 million

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4 million

The agency secured work to produce and mail 4 million tax return reminders

Business development

DVLA's vision is to become a **first class provider of services across Government**. In February 2016 the agency was successful in securing work to produce and mail 4 million tax return reminders for Her Majesty's Revenue and Customs (HMRC).

Customer satisfaction

The results of the UK Customer Satisfaction Index (UKCSI) were published in January 2015. DVLA achieved the **highest score of customer satisfaction across all sectors**. The survey carried out by the UKCSI focuses on customers' actual experiences when dealing with individual organisations.

DVLA user experience testing lab

As part of our commitment to delivering excellent digital services to our customers, in 2015 we opened a **user experience testing lab to understand how customers use our services**. This state of the art facility allows us to better test our services with our customers, providing detailed feedback to help us improve these services further.

£100 million

for the first time in a financial year

DVLA personalised registrations

In 2015-16 DVLA's personalised registrations scheme achieved over **£100 million for the first time in a financial year**. We are proud to have made such an important contribution to what is a competitive personalised registration market.

Our dedicated personalised registrations sales website has generated over **£78 million, this year**, attracting over 700,000 unique visitors, whilst our auction programme of live and online auctions have generated over £22 million.

Awards

Fleet Service Company of the Year

For the second year running DVLA has been voted **Fleet Service Company of the Year** in the 2015 Association of Car Fleet Operators Awards. This is the first time an organisation has won the award 2 years in a row and is in recognition of DVLA's achievements in delivering digital services to the fleet industry over the last 12 months.

People Management Awards

DVLA won 2 awards from The Chartered Institute of Personnel and Development (CIPD) (South Wales and West) People Management Awards. The awards received were for Excellence in Learning and Development and the Student of the Year Undergraduate 2015. These demonstrate our **ongoing commitment to staff development and engagement**.

Customer Contact Association

DVLA's award winning customer contact centre, achieved accreditation to the Customer Contact Association's new Global Standard 6. This is the ninth consecutive year that the agency has been awarded accreditation.

Customer Service Excellence

In 2015 DVLA successfully achieved the Customer Service Excellence (CSE) Standard, achieving continued accreditation since 2008.

Charity of choice

DVLA raised **£43,578** more than doubling the funds raised for 2014, for its charity of choice **LATCH**. LATCH is a Welsh Children's Cancer Charity that supports children who are receiving treatment for cancer at the Children's Hospital for Wales and their families.

The Public Sector Communications Awards

DVLA's Communication Team won the '**best large in-house communications team award**' in the 2015 UK Public Sector Communications Awards.

These awards are in their third year. They celebrate and reward excellent communication strategies and campaigns, teams and individuals in local and national government, emergency services and not for profit bodies from across the UK.

Performance report

01 Who we are and what we do

DVLA is an Executive Agency of the Department for Transport (DfT) and forms part of the DfT Roads, Devolution and Motoring Group.

Our goal is to get the right drivers and vehicles taxed and on the road, as simply, safely and efficiently for the public as possible.

Simpler | Better | Safer

We are responsible for:

- maintaining over 47 million driver records
- maintaining over 39 million vehicle records
- collecting over £6 billion in Vehicle Excise Duty (VED).

We are also responsible for:

- recording driver endorsements, disqualifications and medical conditions
- issuing driving licences
- issuing vehicle registration certificates to vehicle keepers
- taking enforcement action against vehicle tax evaders
- registering and issuing tachograph cards
- selling DVLA personalised registrations
- helping the police and intelligence authorities deal with crime
- providing anonymised data to those who have the right to use the service.

DVLA digital services

DVLA has a high reputation for providing innovative digital services. Over the last year we have introduced 10 new online services (see highlights) and improved our current services. As a result of this, overall take-up has increased from 87.8 % in 2014-15 to 92.3% in 2015-16. Our online services include:

Vehicles online:

- pay your vehicle tax with the option to pay by direct debit
- vehicle management where customers can notify us that they have bought/sold a vehicle

- vehicle enquiry service to check if a vehicle is taxed
- personalised registrations where customers can transfer/retain their personalised registration
- pay your enforcement penalties online.

Drivers online:

- view or share your driving record
- renew/replace your driving licence online
- my licence facility for drivers to give insurance companies permission to check entitlement to drive.

Commercial customers:

- automated first registration and licensing
- view vehicle record for fleet scheme members
- V5C on demand for fleet companies who choose to suppress the issue of the V5C
- selling/buying a vehicle to/from trade.

The purpose of this document

This Annual Report & Accounts sets out our performance and achievements for the year and should be read in conjunction with our business plan 2015-16.

Our strategic plan

We have completed the second year of our strategic plan 2014-17 (see delivering against our business plan 2015-16 on page 15).

In 2015-16 we introduced new digital services and made significant improvements to our processes (see page 7) whilst focusing on our strategic goals of:

Simpler licensing – simplify our policies and technology landscape to improve customer service.

New opportunities – use our assets to grow new revenue, efficiency and opportunities across government.

Excellent services – build seamless, lean digital services that exceed expectations with more cost-effective channels, recognising and responding to different customer needs.

The best of DVLA – develop our capabilities as a centre of excellence, building a unique culture which is commercial, confident and focused on our customers.

How we manage our organisation

DVLA has a framework document agreed with the DfT, which establishes the governance, accountability, key relationships and financial management arrangements within which we operate. At the heart of these arrangements is the DVLA Board consisting of a Non-Executive Chair, Chief Executive (and Agency Accounting Officer), 3 Non-Executive Directors and 6 Executive Directors.

The DVLA Board establishes a clear control framework to support the effective management of risk, supported by delegations of authority and clear business processes, policies and procedures.

For more information about DVLA governance see the accountability report.

Risk management

Risk management continues to be important to DVLA. Details of the risks identified and addressed in 2015-16 are outlined in the governance statement.

Our key risks moving forward are:

- the ongoing risks relating to fraud, error and debt
- the related risks associated with data breaches and poor data quality
- the ongoing risks to IT security which are mitigated through the IT change agenda, for example making new and existing systems as robust as possible in transition.

The risk management process has focused on increasing awareness and knowledge on how to effectively identify, manage and mitigate risks across the agency. This is to ensure there is a robust understanding of what risks affect our business, empowering staff to take accountability and responsibility for protecting the agency.

Social responsibility

DVLA is committed to its corporate social responsibility policy and proactively supports initiatives that empower and benefit Welsh communities and individuals, giving as much back to the local area as possible. We have forged closer relationships with organisations in the region to share best practice and lessons learnt.

We have also played an active role around the digital economy. In November 2015, a digital innovation fund was launched by the Welsh government. This fund is being used to explore ways in which digital technology can help innovate public services in Wales. DVLA is one of the project partners.

DVLA is also a project partner with the new digital economy research centre in Swansea known as CHERISH-DE. This is one of the 6 world leading research centres announced by the Chancellor in the 2015 summer budget.

In 2015-16, DVLA software development community, continued to support local primary schools running code clubs in the Swansea area, teaching children aged 9 to 11 how to code. This is an ideal way to get children thinking more deeply about technology at a crucial age.

Since 2013, our approach to charitable giving has encouraged staff to annually vote for a charity of their choice – a selected charity to receive all fundraising proceeds from that year. Since launching the 'Charity of choice', we have seen a year-on-year increase in the amount of funds raised. A large part of this has been through the hard work, creativity and dedication of our staff.

2015 was a successful year for the agency's fundraising efforts – staff ran marathons, entered raffles, shaved heads and participated in countless other events. Staff raised a total of £43,578 for the Welsh Children's Cancer Charity LATCH, more than doubling the funds raised for 2014.

02 Delivering against our 2015-16 business plan

1. Reform	Measure	Result
1.1 IT transformation – move to a new IT supply chain and digital service platform that provides customers with a 24/7 multi-channel service where appropriate	March 2016	On 11 September 2015 DVLA moved away from its large IT supplier to deliver its IT services in-house. Integration of services onto the new digital service platform is underway
1.2 Drivers medical reform – deliver actions agreed for drivers medical services reform as recommended in our strategic plan	March 2016	We have improved our processes and introduced new online guidance to deliver actions agreed in our strategic plan (see page 18)
1.3 To deliver the facility to pay enforcement penalty payments online to provide a simpler, better, safer service to customers	Nov 2015	On 26 March 2016, DVLA introduced a facility for customers to pay enforcement penalties online
1.4 Stop issuing the paper counterpart to the photocard driving licence	June 2015	DVLA stopped issuing the paper counterpart from 8 June 2015
1.5 Carry out a review of the impact of medical conditions on driving. Review and consult on the potential implications of raising the driving licence renewal age beyond the age of 70	March 2016	DVLA has reviewed older drivers with DfT and the Older Drivers Task Force. The findings of the review will be published in the summer of 2016
1.6 Review and develop a refined data sharing strategy	Dec 2015	A data sharing strategy has been developed and is awaiting ministerial agreement

2. Operational

2.1 Our total digital and automated transactions at March 2016 will	Exceed 75%	92.3%
2.2 To provide scheduled availability on: • Electronic vehicle licensing • Personalised registrations • Driver licence online services	98%	99.97%

Operational cont.	Measure	Result
2.3 To deliver in 8 working days a: • first driving licence • vocational driving licence • digital tachograph renewal	98% of cases	99.9% 99.4% 100%
2.4 To answer calls queued to an advisor in 5 minutes	95% of cases	96.3%
2.5 To maintain accuracy so that the registered vehicle keeper can be traced from details held on our record	95% of cases	92.6%
2.6 Improve the accuracy of the driver records against the March 2015 outcome	78%	86.5%

3. Customer service

3.1 Customer Service Excellence standard	Retain accreditation	Retained
3.2 Customer Contact Association standard	Retain accreditation	Retained
3.3 Improve our customer satisfaction results for key transactions against the March 2015 baseline: • I want to tax my vehicle • I want to amend my vehicle registration details • I want to renew my driving licence	97.6% 88.1% 93.2%	95.9% 92.4% 89.7%
3.4 Develop a baseline for drivers medical customers satisfaction by March 2015 and improve by March 2016	76.8%	76.6%
3.5 Reduce the proportion of formal customer complaints not resolved at first contact by 10% against the 2014-15 baseline of 12.2%	11%	14.9%

Customer service cont.	Measure	Result
3.6 Comply with the Freedom of Information Act providing information within 20 working days	93%	99.9%
3.7 Provide answers to questions asked in Parliament within the required timescales allowed	100%	100%
3.8 Provide draft replies to ministerial correspondence within 7 working days	100%	99.6%
3.9 Reply to official correspondence passed on from Whitehall within 20 working days	80%	99.7%
3.10 Pay our invoices in 5 working days	80%	94.6%

4. Finance and efficiency

4.1 Deliver an efficiency saving of 30% by March 2017 against the 2013-14 baseline net operational expenditure of £405 million	Deliver 10%	19%
4.2 Financial expenditure – manage our Departmental Expenditure Limit (DEL) total within plus or minus 10% (£128 million - £156 million)	March 2016	£112 million
4.3 Ensure by March 2017 DVLA full-time equivalents (FTEs) will number less than 4,900	5,554 (by March 2016)	5,430
4.4 Ensure the average number of working days lost (FTEs) due to sickness does not exceed	7 days	8.6 days

5 .Sustainability

5.1 Reduce greenhouse gas emissions (against 2009-10)	25%	28%

Reform

IT transformation

On 11 September 2015, DVLA became the first in government to move away from a large scale IT contract. The seamless transition and minimal impact of the change to customers and employees has been acknowledged as a success for IT in government. The change is transforming the way in which DVLA delivers its business. Integration of services onto the new digital service platform is underway.

Over 180 third party contracts were successfully completed or re-procured before the end of the contract. The work of the commercial exit programme was highly commended at the National GO Excellence in Public Procurement Awards in March 2016.

Commercial

DVLA's commercial team led the implementation of a DfT contract management system, which acts as the repository of all contractual information. DfT central and 4 agencies are successfully using the system with more to follow in 2016-17.

Business development

In February, DVLA secured a contract with HMRC to produce and mail 4 million tax return reminders which will deliver cost savings and improved efficiency across government.

DVLA's personalised registrations have achieved sales of over £100 million, a significant increase compared to £87 million in 2014-15, reflecting the upturn in the overall market.

Drivers medical reform

The service DVLA provide to customers is very important and we are always looking to improve the customer experience. During the year we introduced new measures and employed additional staff to contribute to improving road safety and reducing the time taken to process medical cases.

Over the last year, we have delivered a programme of work on drivers medical reform as set out in our strategic plan 2014-17. We have:

- Introduced longer period licensing for drivers with epilepsy from 3 years to 5 years and for certain cases where the driver has Parkinson's Disease or Multiple Sclerosis.
- Improved our processes for vocational driver licence first applications, by reducing the initial contact from 35 days to 5 days. All applications where a medical condition has been declared, will either be issued a driving licence, be refused a licence or sent a medical form to complete.
- Made changes to the Medical Examiner Report (D4) for vocational drivers to reduce the number of forms rejected.
- Updated and improved our drivers medical pages on GOV.UK to make it easier for customers to use and understand.
- Improved our contractual costs and turnaround times with our external provider of specialist visual field tests delivering a 35% saving and reducing the time for visual test appointments by 2 days.

- Increased the number of completed reports received from the visual test by 27% returned within 15 days and 95% within 30 days. Completed reports are being returned 4 days earlier than 2014-15, improving road safety.
- DVLA published new guidance for the medical profession in March 2016. The new guidance titled Assessing Fitness to Drive, forms part of the agency's wide ranging plans to improve its services for the medical profession and drivers.

Review of driving licence renewal age

To support the government's commitment to improve road safety, DVLA has been working with DfT and their sponsored Older Drivers Task Force to evaluate available data and approaches to older drivers. The task force has carried out a review of older drivers and intend to publish their findings in the summer of 2016. Once the findings have been published, we will consider the recommendations and next steps.

Online penalty payments

DVLA has introduced a new online service for customers to pay their enforcement penalties. This new service will provide customers with the facility to pay vehicle-related enforcement penalties and any arrears of vehicle excise duty owed. This service supports the government's digital by default agenda, making it easier for the customer to transact with us whilst reducing costs to the agency. For more information visit our website.

For customers who are unable to use our online service, DVLA will continue to provide alternative payment channels.

Abolition of the paper counterpart

On 8 June 2015, DVLA stopped issuing the paper counterpart to the photocard driver licence. The paper counterpart is no longer a valid document. This is part of the government's commitment to cut red tape and remove unnecessary burden supported by DVLA's strategy of simpler, better, safer services for our customers.

The abolition of the paper counterpart has contributed towards reducing the amount of paper we use in our operations, this equates to over 8 million counterparts per year.

Access to driving licence information is available on view or share your driving licence and is the digital alternative to the counterpart. Drivers in Great Britain can view their driver record online or share their details with third parties. This innovative range of services gives drivers control of their personal data and who they share it with. In 2015-16 over 12 million customers used this service.

Data strategy

During the year, DVLA carried out a review of its current data sharing activities to ensure that it fits with wider organisational objectives and our strategic direction.

We have taken into account the pressures on our current data sharing services. We have considered how best to improve services for existing customers. This included the assurance and audit of the release and use of data.

We will continue to engage with our customers to improve the technology that supports our digital services and focuses on potential changes to DVLA's vehicle enquiry service. We will ensure that we include the necessary controls, audit arrangements and price structure for each service in line with our strategy and managing public money.

Operational

DVLA digital services

Over the last year we have introduced 10 new online services and made further changes to the digital services we offer. Our aim is to get as many customers as possible to transact with us digitally. Over the next few years we will put more of our services online. In 2015-16 take-up of our services available online continued to grow, achieving 92.3%.

DVLA Digital take-up 2014-16

March 2014	74.8%
March 2015	87.8%
March 2016	92.3%

Accuracy of DVLA records

During the period January 2016 to March 2016, a survey of 4,002 registered vehicle keepers was undertaken to determine the level of traceability of registered keepers from the details held on DVLA records. This survey is part of our ongoing activities to improve the accuracy of our vehicle records.

Historically, the accuracy of our vehicle records is high and our expectation for the year was to maintain vehicle accuracy at 95%. The results of our recent traceability survey showed that accuracy of the vehicle record continues to be high at 92.6% although under target.

The accuracy of our driver records has improved to 86.5% from the March 2015 outturn of 78%.

The increasing popularity of our online services has allowed customers to notify us sooner when they change their vehicle and driver licence details. This will contribute to improving the accuracy of both our driver and vehicle records. We have also updated information on our website to make it easier for the customers to understand how to notify us of changes to their details.

Customer service

Customer service standards

DVLA is committed to developing excellent services for our customers that are both meaningful to them and easy to use. DVLA is working closely with stakeholders, customers and other interested parties to ensure we provide services that suit their needs. For more information about our services visit our website.

Customer Service Excellence standard

In 2015 DVLA successfully achieved the Customer Service Excellence (CSE) standard, achieving continued accreditation since 2008. CSE accreditation demonstrates our commitment to achieve service excellence, putting our customers at the heart of our services.

DVLA contact centre

During the year DVLA's contact centre continued to successfully support customers through changes, such as the abolition of the counterpart.

The contact centre achieved accreditation of the Customer Contact Association (CCA) Global Standard 6 in recognition of providing excellent customer service.

In March 2016, we introduced a new web chat facility to the existing telephone, email and social media channels. This will enhance the contact centre's reputation as a multi-channel customer service provider against other leading public and private contact centres.

In the next year we will continue to modernise our contact centre. This will support and improve the quality of our customer service.

Customer satisfaction

During the year, DVLA built on its continuous improvement activities, focusing on customer expectations and satisfaction. Customer satisfaction levels are historically high, but our customers have expressed some dissatisfaction with our recent change to make vehicle excise duty non-transferable. We continued to achieve a high level of satisfaction from customers at 95.9%, slightly missing our target of 97.6%.

We narrowly missed the 93.2% customer satisfaction target for 'I want to renew my driving licence', achieving a satisfaction rate of 89.7%.

We achieved 76.6% satisfaction from our customers who have notified us of a medical condition. In 2016, we will introduce a new service for customers to notify us of their medical condition online. This will significantly improve the time it takes to process the application and contribute towards the improvement of customer satisfaction.

Our customer satisfaction results are based on a random sample of customers who have used the services during the year. As with any sampling of a population there will be a margin of error within the results. The table below sets out the 95% confidence interval based on the numbers sampled for each measure against each target.

Customer Satisfaction Measure	Target	Result at 95% Confidence Interval
I want to tax my vehicle	97.6%	94.8% to 97.1%
I want to amend my vehicle registration details	88.1%	99.0% to 96.7%
I want to renew my driving licence	93.2%	87.7% to 91.6%
Drivers medical transactions	76.8%	72.2% to 81.0%

DVLA user experience testing lab

As part of our commitment to deliver excellent digital services to our customers, we opened a user experience testing lab in 2015 to understand how customers use our services.

This new state of the art facility allows us to better test our services with our customers, giving us detailed feedback to help us improve our services. Our commercial customers are keen to explore this facility to help inform the development of their services.

Over the next year, we will be undertaking a best practice programme of user experience research, designed to accelerate the development of our driver and vehicles services.

Our commercial customers

Through engagement, extensive insight and a partnership approach, DVLA has changed the way it delivers its services to meet the differing needs of its customers.

During the year we continued to work closely with our corporate customers and stakeholders to strengthen our relationships and partnerships.

The motor trade, haulage, bus and fleet industries have all been active in working with us to create and test our new digital services. They have also used their communication channels and media to encourage customers to use our digital services.

In recognition of DVLA's service to businesses, for the second year running, we have been voted Fleet Service Company of the Year in the 2015 Association of Car Fleet Operators (ACFO) Awards. This award is one we are most proud of as it recognises our achievements to deliver digital services to the fleet industry over the last 12 months.

Customer complaints

DVLA's aim is to give the best possible service to its customers. We have to make difficult decisions as well as providing a high quality experience for our customers. It may not always be possible to meet customer expectations, as our decisions have to be made in line with relevant laws.

In 2015-16 the number of overall complaints reduced by 6.5% (12,775 compared to 13,660 in 2014-15). We failed to achieve the proportion of formal customer complaints not resolved at first contact against the 2014-15 baseline target of 11%, our final result was 14.9%. We have evaluated our processes and the evidence shows that the result was influenced by:

- Major changes to vehicle licensing, involving the abolition of the tax disc and introduction of direct debit for VED.
- Delays in our drivers' medical process early in the year meant that customers continued to write to seek explanations around the issue of their driving licence. We will continue to make improvements to our services to deliver drivers medical reform (see page 18).

As a result, we have carried out a number of changes to the reported complaints process. We have commissioned a review using market research techniques and customer feedback on the clarity of the complaint process. We have also completed a review of the quality assurance process for complaint handling and initiated a professional complaint handling training programme. Customers now have direct access to our website to make a complaint.

For more information about our complaints procedures visit our website.

Finance and efficiency

DVLA's accounts are made up of the business account and the trust statement.

Business account

The business account is segmented into:

- Maintenance of the driver and vehicle database and related services.
- Sale of personalised registrations, which represents commercial income generated directly from the public. DVLA retains income to recover its costs in administering personalised registrations services with the excess paid to HM Treasury as consolidated fund extra receipts.
- Collection and enforcement of Vehicle Excise Duty (VED) including enforcement recoveries. Income stream from the collection of VED is accounted for in the trust statement.
- Services delivered to other government departments.

Financial results

DVLA's total income for the year was £541 million against the £483 million forecast in our business plan 2015-16. The increase of £58 million is mainly due to:

- Vehicles first registration volumes exceeding forecast by 9% which have generated an extra £15 million.
- Other fees and charges which include applications for replacement vehicle registration certificates and the transfer and assignment of personalised number plates to vehicles generating an increase of £26 million.
- Income from the sale of personalised registration numbers generating an additional £17 million. This is due to an increase of online sales from a forecast of around 600 per day to over 800. This reflects the upturn in the overall market.

Of the £58 million increase, £38 million has been surrendered to HM Treasury as consolidated fund extra receipts.

Total expenditure was £485 million against a business plan figure of £496 million. This is due to a number of variances:

- Staff costs and ICT was £5 million less, following the move away from the IT contract.
- Expenditure on agents fees was £8 million lower than our business plan, as a result of customers moving to digital channels.
- The cost of medical tests increased by £3 million against business plan, due to higher volumes of transactions being processed.

Departmental Expenditure Limit

As a government body, DVLA has budgets set at the start of the financial year in respect of its business account activities, known as the Departmental Expenditure Limit (DEL). The resource DEL outturn for the year is £112 million, £29 million under plan. Although expenditure has been steady, the additional income generated, as described above, resulted in a lower DEL requirement.

Trust statement

DVLA's trust statement details the revenue in respect of VED, fines and penalties falling outside of the boundary of the agency's business account.

Financial results

During the year the gross revenue amounted to over £6 billion, a decrease of £86 million on the restated 2014-15 results.

The net cost of collecting VED and the enforcement action taken as a result of non-compliance (brought to account in the business account) was £136 million, a decrease of £4 million against our business plan.

VED evasion

The Roadside Survey on VED evasion is carried out every 2 years to estimate the rate of evasion among vehicles seen on UK roads and the associated revenue loss. The survey is based on observing registration marks of vehicles in traffic carried out at 256 sites across the UK.

The Roadside Survey published in November 2015, estimated a compliance rate of 98.6%, a 0.8% reduction since the last survey in 2013. It is estimated that this may result in around £80 million in lost revenue for HM Treasury but some of this will have been recovered through enforcement activity.

There have been a number of changes to VED collection procedures since the 2013 survey which will have impacted on customer behaviour and these may also have contributed to the reduction in compliance.

Abolition of the tax disc – in October 2014 the paper tax disc, first issued in 1921, was abolished. As the last tax discs issued expired on 30 September 2015 it is likely that during the transitional period with customers becoming accustomed to the new tax changes that VED collection was affected. The agency has taken considerable steps to ensure that motorists are aware of the vehicle tax changes and have responded quickly where there have been issues.

Non-transferability of VED and automatic refunds – since 2014, vehicle tax ends when a vehicle changes ownership and the previous keeper is automatically refunded any full month of tax remaining. The new keeper is responsible for taxing the car immediately.

Direct Debit – the Agency launched its Direct Debit scheme to manage the cost of VED in October 2014. There are around 10 million customers now using this service.

Once we have issued a new vehicle registration certificate V5C to a new keeper of a used vehicle, if they have not taxed that vehicle immediately, we write to remind them that VED is no longer transferable and that they must tax or notify us that their vehicle is kept off the road. Vehicle keepers who fail to tax receive a further reminder letter and those that still do not comply may have their vehicle clamped and/or impounded.

Efficiency

DVLA committed to achieve a 10% (£40.5 million) reduction in net operating expenditure by 2015-16 against the 2013-14 baseline of £405 million. The agency has exceeded the 10% target with a total reduction of 19% equating to around £78 million.

The savings have been achieved by realising the benefits from the following initiatives:

- abolition of the tax disc
- modernisation of DVLA's network services
- centralisation of Northern Ireland vehicles services
- channel shift savings from the increased take-up of electronic vehicle licensing
- ICT Transformation including in-housing of our IT services.

Sustainability

Sustainability in DVLA

In 2015-16 the government extended the reporting period of the Greening Government Commitments (GGC) by 1 year. DVLA has exceeded all GGC targets with exceptional performance in reducing domestic flights and carbon from travel. Details of the performance against each commitment can be found below.

Measure	Greening Government Commitment	2009-10 Baseline	2015-16 Target	Outturn 2015-16	% reduction Result 2015-16
Greenhouse Gas Emissions	By 2015-16, reduce total carbon emissions by 25% of 2009-10 levels (tCO2e).	18,261	13,696	13,125	28%
Greenhouse Gas Emissions	By 2015-16 reduce domestic business travel flight levels to 80% of 2009-10 levels (number of flights).	1,747	1,397	102	94.2%
Waste	Reduce waste arising by 25% by 2015-16, relative to 2009-10 levels (tonnes).	2,196	1,647	1,148	47.7%
Water	Reduce water consumption to an average of less than 6m3 per person per year (m3/FTE) (includes office accommodation only).	4.58	6	3.84	16.2%
Administrative Paper	Reduce paper usage by 25% against the 2009-10 baseline by March 2015. For those organisations who had already achieved this level of reduction, to maintain the reduced levels achieved in 2011-12 (equivalent A4 reams).	67,065	50,299	25,561	61.9%

Further information is available in our Sustainability Report 2015-16 The following section details the minimum sustainability reporting requirements in accordance with the HM Treasury Public Sector Annual Reports: Sustainability Reporting Guidance 2014-15 and Greening Government Commitments Guidance.

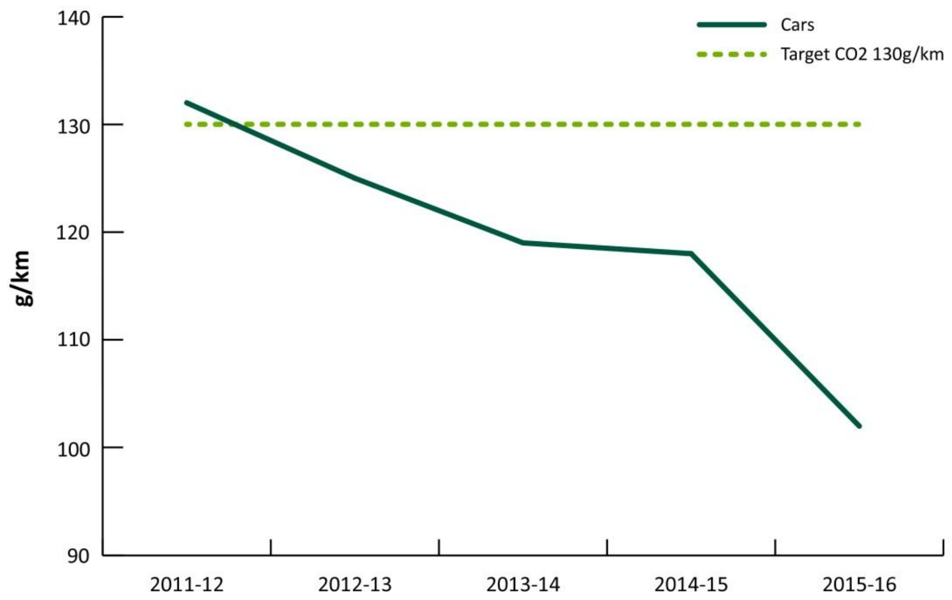
Greenhouse Gas Emissions

Greenhouse Gas Emissions are made up of 2 components:

- emissions from travel
- emissions from the estate.

Emissions from travel

The emissions created by business travel have been reduced by 73.2%, between the baseline year of 2009-10 and this reporting year. This includes a reduction within the current year by a further 5% from 2014-15. A continued focus on reducing travel, changing modes of travel and procuring low emission DVLA fleet cars with the support of the [Office for Low Emission Vehicles](), have all contributed to the excellent performance against this target.



This was the final year of the Sustainable Operations on the Government Estate (SOGE) targets, GGC did not start until the following year.

Emissions from the estate

DVLA has achieved a decrease in emissions from the estate of 25.60% against the 2009-10 baseline, a marked improvement in performance from the end of last year. This has been achieved by introducing a more positive and agile way to managing our heating and cooling systems and by undertaking a number of other changes, such as fitting CO_2 sensors to automate management of air handling units. We have also installed variable speed drives to the main chiller pumps and are reviewing the lighting use across the estate and removing excess lighting.

Years	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Scope 1	5579	5166	3662	4766	3218	3974	6224
Scope 2* and 3	13290	13028	13308	12241	13061	11584	7146
Total	17290	17088	15818	15753	15080	14558	12864
% Reduction	-	-1%	-9%	-9%	-13%	-16%	-26%

* Transmission losses emissions are included with Scope 2 (Grid Electricity Emissions)

Waste

In 2015-16 we saw a reduction in waste of 47.7%; this is almost a 2% improvement from the previous year. We continue to modernise our business, driven by our determination to reform our services and work in a way to make our services easier for customers to use. We are now realising the environmental benefits of initiatives such as abolition of the tax disc and the counterpart to the photocard driving licence.

Water

In 2015-16 we continued to achieve good practice consumption figures for our water consumption at 3.84m^3 per FTE (good practice is between 4-6m^3 per FTE). This is based on office space only. Our total consumption has reduced since the baseline year by around 10%. For more information see our Sustainability Report 2015-16.

Procurement

DVLA recognises the impact that its procurement decisions have on sustainability outcomes and continues to look for areas to improve our performance in this area. This year we have developed a specific action plan to focus on improvements, have a representation on the government-wide sustainable procurement group and continue to be committed to meeting the Government Buying Standards (GBS) best practice specifications wherever possible. More information on sustainable procurement can be found in our Sustainability Report 2015-16.

Transparency commitments

Climate change adaptation	One of DVLA's properties is at risk of flooding. The local council has taken mitigating actions within the area and we have business continuity plans in place to reflect this risk. There are ongoing discussions about the longer-term future of this site for operational purposes.
Biodiversity and natural environment	The work that we have undertaken over the past few years as part of our focus on increasing the biodiversity of our sites is starting to show positive results. This year we have recorded 9 Section 42 species.
Procurement of food and catering services	Procurement of our food and catering services is done through our PFI contract. We undertake an annual check of this and the current supplier. The results of this annual check can be seen in our SD report.
Sustainable construction	No construction activities have been undertaken in the past 12 months.
People	More details on our social responsibility can be found in our SD report.

Oliver Morley
Accounting Officer and Chief Executive, DVLA
6 July 2016

Accountability report

03 Corporate governance report

Directors' report

Purpose of the Directors' report

This report is presented in accordance with the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Members of the Board

Full disclosure of the serving directors for 2015-16 is available in the governance statement of this document. Directors have declared that they hold no significant third party interests that may conflict with their board duties.

Pension liabilities

The employees of DVLA are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply.

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'alpha' – are unfunded multi-employer defined benefit schemes. DVLA is unable to identify its share of the underlying assets and liabilities. Provision is made in Note 11 of the business account to meet early retirement costs payable by DVLA up to employee's normal retirement age.

Employees

Information about our policies and arrangements relating to staff is shown in the staff report.

External auditors remuneration

The external auditors did not undertake any non-audit work in the year.

Disclosure of audit information

The Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the agency's auditors are aware of any relevant information.

Sickness absence data

The agency's sickness absence measure is shown in the Performance Report on page 17.

HM Treasury cost allocation and charging requirements

Full disclosure of the agency's compliance with the cost allocation and charging requirements of HM Treasury is reported within Note 2 of the financial statements.

Personal data related incidents

Full disclosure of the agency's data controls is made through the Governance statement on page 32.

Future developments

The agency's future developments are detailed in our strategic plan 2014-17 and business plan 2016-17 .

Statement of Accounting Officer's responsibilities

Business Account

Under the Government Resources and Accounts Act 2000, HM Treasury has directed DVLA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the DVLA and of its comprehensive net expenditure, cash flows and changes in taxpayers' equity, for the financial year.

In preparing the business account, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The Permanent Secretary of DfT has appointed the Chief Executive of DVLA as Accounting Officer of the agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DVLA's assets, are set out in Managing Public Money published by HM Treasury.

Trust Statement

Under the Exchequer and Audit Departments Act 1921, HM Treasury has directed the DVLA to prepare, for each financial year, a trust statement detailing the revenue and expenditure in respect of Vehicle Excise Duty (VED), fines and penalties falling outside of the boundary of the agency's business account. The trust statement is prepared on an accruals basis and must give a true and fair view of the collection and allocation of VED, fines and penalties, including the revenue and expenditure, financial position and cash flows. Whilst DVLA is concerned with compliance, the trust statement does not estimate the duty foregone because of non-compliance with the VED regime.

In preparing the trust statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the trust statement
- prepare the financial statements on a going concern basis.

HM Treasury has appointed the Permanent Secretary of DfT as Principal Accounting Officer of the Department. The Chief Executive of DVLA holds the role of Accounting Officer for the purposes of the trust statement. The Accounting Officer is also responsible for the fair and efficient administration of the VED regime including the assessment, collection and proper allocation of VED revenue.

Governance statement

Introduction

The Permanent Secretary of the DfT has appointed me as Accounting Officer and Chief Executive for DVLA. As Accounting Officer, I have responsibility for the proper, effective and efficient use of public funds and may be required to appear before Parliamentary Select Committees. I am accountable to the Minister for the performance of DVLA in accordance with the framework document, which sets out the accountability and key relationships between DVLA and the DfT. I am also required as Accounting Officer by HM Treasury's Managing Public Money and the Government Financial Reporting Manual to provide a statement on how I have discharged my responsibility to manage and control the resources for which I am responsible during the year.

DVLA is sponsored by DfT's Roads, Devolution and Motoring Group which is also sponsor to the Driver and Vehicle Standards Agency (DVSA) and the Vehicle Certification Agency (VCA). DVLA is responsible for providing driver licensing services in Great Britain and the registration of vehicles and collection of VED throughout the UK. Regular meetings are held with Ministers to discuss the agency's current issues and general progress. These are attended by the DVLA's Non-Executive Chair, Chief Executive and the DfT sponsor as required.

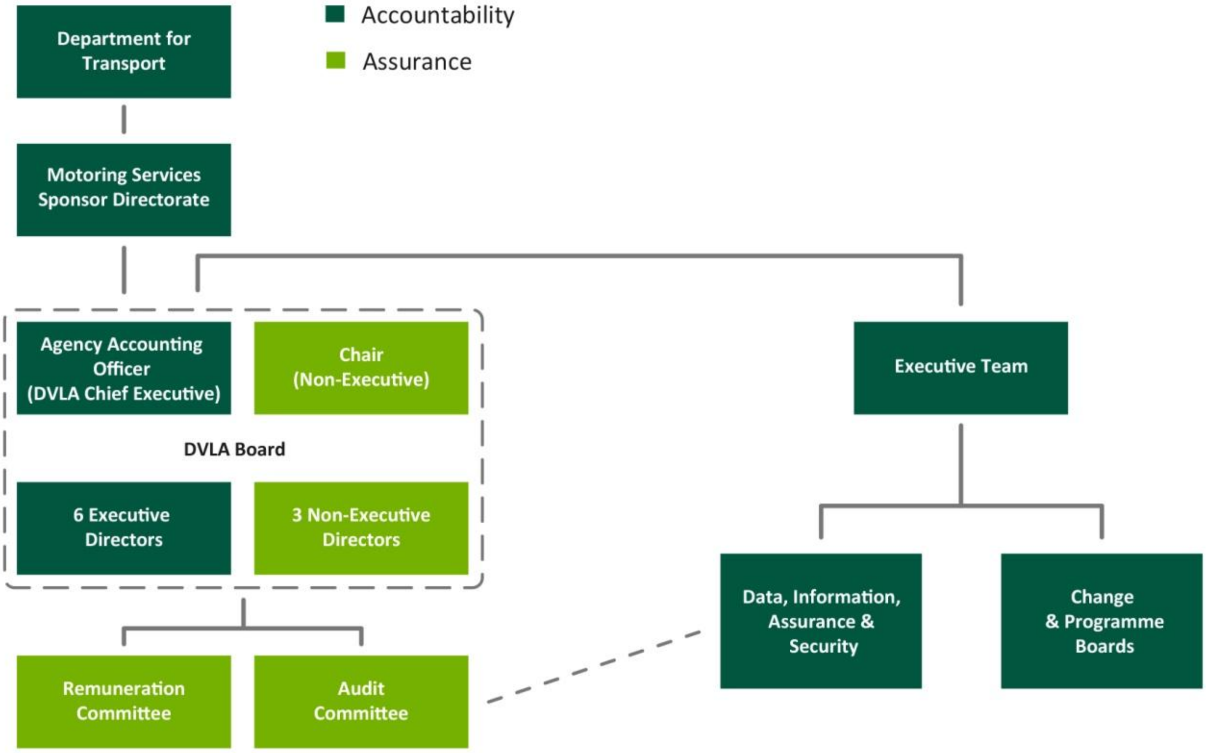
Driver licensing in Northern Ireland is a devolved power and is undertaken by the Driver and Vehicle Agency (DVA), sponsored by the Department of Infrastructure in Northern Ireland. However, responsibility for licensing and registering of vehicles in Northern Ireland lies directly with the DfT Secretary of State.

Governance framework

I have ensured that the agency's governance framework is designed to comply with the good practice guidance laid down in HM Treasury Corporate Governance in Central Government Departments: Code of Good Practice 2011. This has been supported by a Governance review undertaken by the Government Internal Audit Agency (GIAA) during 2015-16.

DVLA is managed by a Board and an Executive Team. The DVLA Board is chaired by a Non-Executive Director and has both strategic and business oversight responsibilities supported by the Audit and Risk Committee and the Remuneration Committee. The Executive Team is responsible for the management of the agency in delivering its day to day commitments to the government and the public as set out in the annual business plan. The agency's high level governance structure is given below.

Governance structure



DVLA Board

The DVLA Board comprises a Non-Executive Chair, the Chief Executive, 6 Executive Directors and 3 independent Non-Executive Directors and focuses on the agency's strategic direction. The Board gives assurance to the Secretary of State for Transport on the effectiveness with which the agency is run and is meeting its objectives and holds the Executive Team to account for the delivery of those objectives. The Non-Executive Chair is appointed by the Secretary of State. I appoint the Executive Directors with approval from the Permanent Secretary. Non-Executive Directors are recommended for appointment by the Chair to the DVLA Board, in partnership with the Director General of Roads, Devolution and Motoring at DfT. There is a clear demarcation between the DVLA Board and the Executive Team.

The DVLA Board meets formally each month to consider:

- the strategic direction and plans of the agency, including oversight of the agency's change agenda and progress against the business plan
- oversight of the key risks and issues identified by the Executive Team and the effectiveness with which they are mitigated.

DVLA Executive Directors have specific areas of functional responsibility and accountability as below:

Operations & Customer Services: Tony Ackroyd

Human Resources and Estates: Phil Bushby

Technology: Iain Patterson to 29 February 2016

Strategy, Policy and Communications: Julie Lennard

Finance: Rachael Cunningham

Commercial and Business Development: Andrew Falvey

The Non-Executive Chair and the 3 Non-Executive Directors act through the monthly board meetings and as members of the Audit and Risk Committee and Remuneration Committee and have private sector backgrounds:

Lesley Cowley, Non Executive Chair (appointed 2014) in leadership and digital transformation.

Mike Brooks, Audit and Risk Committee Chair (appointed 2009, resigned 2015) in accountancy, audit and finance.

Jeremy Boss, Audit and Risk Committee Chair (appointed 2016), in accountancy, audit, finance and IT.

Christopher Morson (appointed 2013) in strategy and digital service transformation.

Emma West (appointed 2014) in talent management and organisational development.

Executive Team

The Executive Team meets formally each week and has responsibility and accountability for delivering the agency business plan together with day-to-day management of the business. I chair this meeting and its membership is drawn exclusively from the agency's executive directors.

The focus of these meetings changes every week over a 4 week cycle.

Week 1 – Change Portfolio Delivery and Investment Decisions

Week 2 – Operations

Week 3 – Finance and Commercial

Week 4 – Human Resources, Estates, Policy and Communications.

This regular and consistent rhythm builds a strong team ethic and a keen focus on business issues driving productivity and delivering change.

Board and Audit and Risk Committee attendance

Figures denote meetings attended (meetings available to attend) between 1 April 2015 and 31 March 2016.

Name	DVLA Board	Audit and Risk Committee
Lesley Cowley, Non-Executive Chair	11/(11)	N/A
Oliver Morley, Chief Executive	11/(11)	3/(4)
Rachael Cunningham	10/(11)	3/(4)
Phil Bushby	10/(11)	N/A
Iain Patterson (to 29 February 2016)	6/(8)	N/A
Tony Ackroyd	11/(11)	N/A
Julie Lennard	11/(11)	N/A
Andrew Falvey	10/(11)	N/A
Mike Brooks, Non-Executive Director, Audit and Risk Committee Chairman (to 30 September 2015)	6/(6)	2/(2)
Jeremy Boss, Non-Executive Director and Audit and Risk Committee Chairman (from 21 January 2016)	2/(3)	1/(1)
Christopher Morson, Non-Executive Director	11/(11)	4/(4)
Emma West, Non-Executive Director	10/(11)	4/(4)
Paul Rodgers, DfT Non-Executive Director	N/A	4/(4)
Sarah Scullion, DWP Non-Executive Director	N/A	4 /(4)

The ET has met 50 times in the year with non-attendance agreed in advance on an exceptional basis.

DVLA Board effectiveness

The Chair meets regularly with the Non-Executive Directors to discuss their performance and to ensure the agency gains greatest value from their external perspectives and experience.

The Board periodically undertakes self assessment reviews of its performance against Cabinet Office, National Audit Office and external good business practice guidance. The latest review was undertaken in September 2015. Whilst the review concluded there were no significant issues to address, the Board agreed a number of continuous improvement activities in the areas of strategic planning and development, external stakeholder engagement and Non-Executive Director appraisal, development and performance reporting. Some outputs from the review have already been implemented with the remainder being worked on for the forthcoming year.

As Chief Executive, my role is to formally agree specific targets and success criteria with each Executive Team member at the start of each year, directly from the agency's published business plan and I review progress against these objectives with them at face-to-face monthly meetings.

Remuneration Committee

The role of the Remuneration Committee is to make final recommendations to DfT and myself on all aspects of remuneration decisions for DVLA's Executive Team (including the Chief Executive) in accordance with current pay guidance and with particular regard to equal opportunities.

It also considers the wider talent in the organisation and ensures visibility in respect of potential successors into agency senior civil service positions. It is chaired by the DVLA Chair and met on 2 occasions during the year.

Audit and Risk Committee

The DVLA Audit and Risk Committee has formally agreed terms of reference which is reviewed on an annual basis. The Committee provides advice and support to the Chief Executive in delivering the Accounting Officer role for the agency.

The Audit and Risk Committee is comprised of 3 Non-Executive Directors and 2 independent members who are senior civil servants in DfT and the Department for Work and Pensions. The 5 members are:

Mike Brooks –Audit and Risk Committee Chair (appointed 2009, resigned 2015)

Jeremy Boss – Audit and Risk Committee Chair (appointed 2016)

Christopher Morson – (appointed 2013)

Emma West – (appointed 2014)

Paul Rodgers* – accountancy and commercial (appointed 2012)

Sarah Scullion* – human resources (appointed 2013).

*(senior civil servants with the DfT and the Department for Work and Pensions respectively).

I attend along with the Finance Director and Head of Internal Audit as observers, National Audit Office and KPMG as sub-contracted auditors to National Audit Office. Other Executive Team members attend as observers by rotation and when the Committee has asked to discuss matters for which they are accountable. Representatives of DfT Finance have a standing invitation to attend every meeting.

The Audit and Risk Committee has access to all internal audit reports, major project assurance reports, external reviews, risk registers and management reports. The agenda follows a cyclical pattern for external reporting but consider the following at each of their 4 meetings:

- progress against assurance plans; adequacy of response to the risk register and that correct risks have been identified
- management responses and action progress against assurance reviews
- response to fraud and bribery threats
- ICT security and any breaches reported.

The Audit and Risk Committee considers and approves the agency Management Assurance Statement, the Governance Statement and the Annual Report & Accounts.

Wider governance

The DfT Sponsor helps ensure sufficient priority is afforded to operational delivery, progress towards business plan performance measures and the management of risk through regular challenge meetings with myself and the Director of Finance.

The agency contributes monthly to DfT transparency reporting on progress towards financial targets and cash forecasting, expenditure and contracts in respect of our own activities. The DVLA reports, together with emerging escalated risks and issues, are aggregated with those of other agencies and considered at the DfT Executive Committee and Group Audit and Risk Committee as appropriate.

Managing our risks

The agency risk policy is updated on an annual basis to ensure the risk management framework and approach to risk appetite is appropriately defined and remains effective. The current agency risk policy is published on DVLA's internal Intranet site and remains aligned to the overarching DfT policy.

Risks are identified and managed at several levels across the agency and captured on a standard reporting template. Current risks are reviewed by the Executive Team on a monthly basis along with a quarterly review by the DVLA Board and Audit and Risk Committee.

The Executive Team and agency Board consider potential new risks that the agency faces on an ongoing basis. A specific risk identification exercise was undertaken in January 2016 identifying risks to be included on the Corporate Risk Register.

The main risks to the agency at the 2015-16 year end included a number of inherent risks that the agency will always need to monitor. Such risks include ensuring robust business continuity plans being in place to address a range of potential disruptive scenarios; and the ongoing risks based around the move to more digital services ensuring these changes minimise the risk of fraud and any potential data breaches. The agency has in place specialist registers for the areas of business continuity, counter fraud, information assurance and health and safety ensuring these risks are continually monitored and actions are put in place to mitigate against such risks occurring. The agency has a continuous focus on data quality for all stakeholders and customers. Data Governance Board monitors and reviews all data and information risks across the agency.

Significant risks are escalated as appropriate to DfT in accordance with requirements set by the Department and HM Treasury.

The effectiveness of the agency's risk management framework has been reviewed during the year:

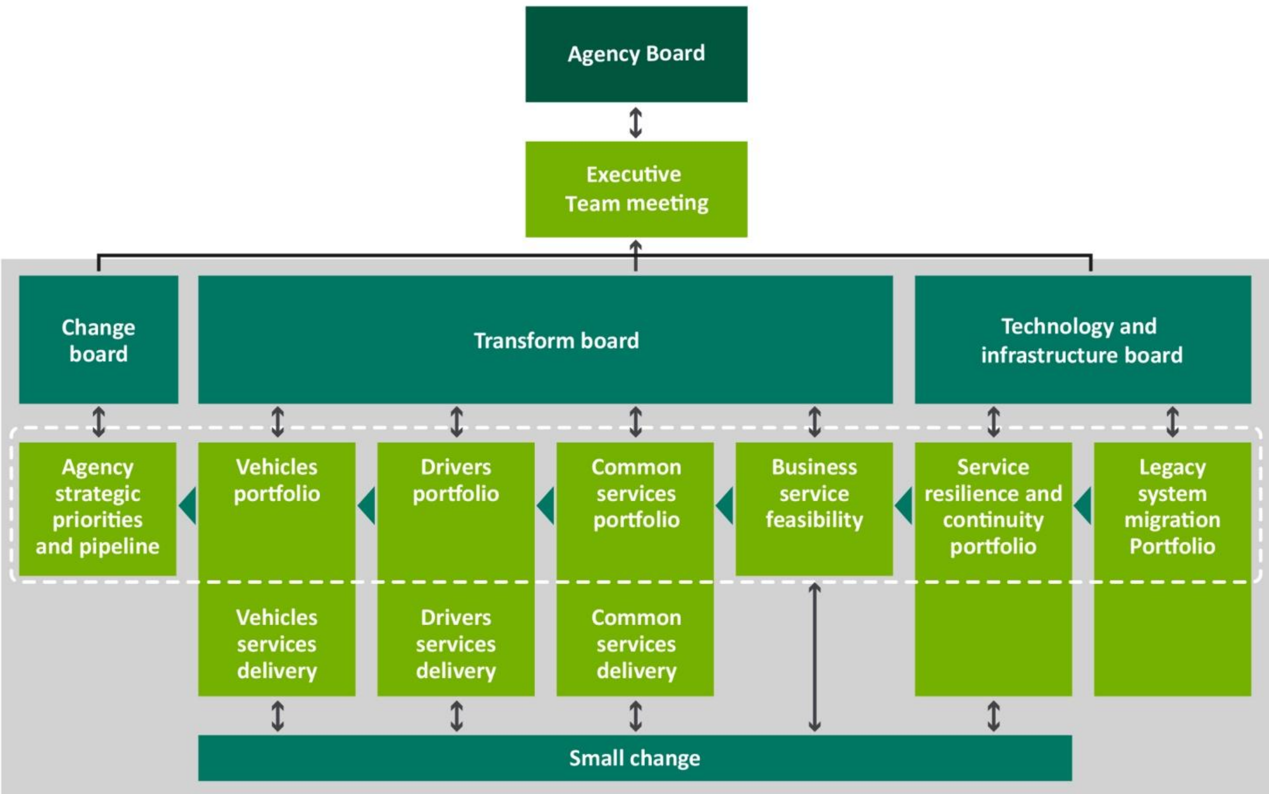
- Our internal audit service has performed an independent and objective review on the existence and effectiveness of controls over the agency's risk management framework. The review confirmed that a sound framework was in place but that the agency could benefit from some further improvements to enhance the effectiveness of the framework of risk management within the IT Directorate to reflect the post out-sourced IT environment.
- A risk maturity assessment has been conducted by independent assurance reviewers and aligned with the internal audit review which was conducted in parallel. Last year the assessment concluded the agency continues to make progress in the area of risk management with increasingly mature risk management practices. This maturity assessment supported the review performed by internal audit.

Managing the business – change and investment

The agency manages the introduction and prioritisation of change through the strategic pipeline. The key features of this process are:

- A rolling 24 month pipeline of change including contracts, business as usual and business development activities.
- A fortnightly Change Board consisting of the Executive Team and Finance, which acts as the first decision making forum in the pipeline process.
- A fortnightly Business Impact Panel (BIP) consisting of representatives from across the agency. This panel assesses the potential impact on the agency and allocates funds of up to £50,000 to initiate discovery work to ensure there is a clearly identified need and that any proposal is value for money.
- The agency business case process determines the appropriate governance route for each investment. A 3 stage business case process (following HM Treasury Green Book guidance) is undertaken for changes with a lifecycle cost greater than £1m with smaller value investments requiring a Cost Benefits Analysis.
- All business cases are subject to internal specialist review (by key individuals across the business) and approval at the appropriate board depending on value (i.e. Programme, ET, and agency board).
- Change progress and portfolio finance update is reported to week 1 ET meeting. During the year a continuous assurance function has been set up to provide assurance on the delivery confidence of projects. This function provides assurance reporting to the ET and Audit and Risk Committee.

Governance Model – portfolio structure



Cabinet Office spending controls

In addition to the rules set out in Managing Public Money, Cabinet Office operates a set of additional spending controls. Nine areas of spend require specific Cabinet Office approval. They are:

- advertising, marketing and communication
- strategic supplier management
- digital technology
- consultancy
- property, including facilities management
- commercial models
- redundancy and compensation
- external recruitment
- learning and development (Civil Service Learning).

Relevant areas within the agency have been assigned specific responsibility for assuring the spending requests submitted to the Cabinet Office.

The agency has worked with DfT and Cabinet Office spend approval teams (for digital and technology spend) to develop a more effective spend control process. This has been based on an assessment of the agency's ability to manage its digital and technology spend approval. Initial assessment by the Cabinet Office has been positive and discussions are ongoing on how this will work in practice. The agency's change pipeline is key to this process by giving a clear forward view of plans.

Financial controls

Review of operational budgets and project affordability takes place at the monthly finance ET meeting with confirmation of affordability given by the Finance Director. Budgetary controls are supported by a robust and formal full monthly planning and re-forecasting cycle, monitoring volume and change demand. The results are reported monthly to the DVLA Board for action and forward decisions.

As the Accounting Officer, I hold a letter of Financial Delegation issued by the Permanent Secretary of the DfT. I sub-delegate financial delegations to Executive Directors and key finance staff.

Staff who have been allocated a delegation must ensure that they have completed the mandatory training programme and been assessed to ensure competence to fulfil the role.

The agency has developed and implemented a strategy and framework for the analytical assurance of both business case models and statistic reports. The framework details roles and responsibilities and ensures the agency enshrines the principles of the Macpherson Review in the day-to-day operation of its business and will ensure a robust body of documentation is available for audit. Analytical assurance statements are produced as standard reflecting best practice. Specialist review sign off of business cases ensures analytical assurance is undertaken prior to investment decisions being made. A periodic review is undertaken assessing the organisation's business models against DfT criteria to establish if the model in question is classified as 'business critical'. At present we do not have any models classed as 'business critical'.

Shared Services

DfT divested its Shared Service Centre (which provides back office services including HR, Payroll and Finance) to arvato on 1 June 2013 and established the government's first Independent Shared Service Centre 1 (ISSC1). DVLA, as part of the DfT family, contracts with arvato through a call-off contract under a framework agreement managed by the Cabinet Office.

Since divestment, arvato has provided legacy SAP services to DVLA. Work continued to migrate the DfT family, including DVLA, to Tier 2 platform during 2015-16.

In November 2015, DfT and the Cabinet Office agreed that DfT would lead in agreeing a way forward for DfT in respect of their relationship with arvato. The Cabinet Office remained the framework authority for ISSC1 and the new ISSC1 governance arrangements were agreed by the Cabinet Office and DfT. This enabled DfT to fulfil certain responsibilities under the framework agreement during the commercial negotiation phase. As the framework authority, the Cabinet Office Accounting Officer remained responsible for providing DfT and DVLA, with assurance that ISSC1 was meeting its contractual obligations. The Cabinet Office Accounting Officer was supported in this role by a dedicated Shared Service Audit Committee.

The commercial negotiations with arvato have been concluded in principle. DfT has secured agreement with arvato on revisions to the DfT call-off contract that will ensure continuity of service and prove good value for money for the taxpayer.

In early 2016, the Comptroller and Auditor General approved plans for a National Audit Office report into the government's Next Generation Shared Services programme, focusing primarily on progress on its 2 Independent Shared Service Centres. The NAO report was published on 20 May 2016 and was subject to a Public Accounts Committee hearing on 27 June 2016.

DfT has received an International Standards of Assurance Engagement (ISAE) 3402 report, produced by Ernst and Young on arvato's operation of the control environment at ISSC1. DfT has also received a number of internal audit reports from the Cabinet Office on ISSC1 risk controls. DVLA has placed reliance on these reports for assurance over ISSC1's control environment during the 2015-16 financial year.

Commercial controls

As a central government body, the agency's commercial activity is governed by legislation within the Public Contracts Regulations 2015. In the agency, governance and control of commercial activity is administered by the Commercial Directorate and overseen by the Commercial Director.

Commercial Directorate is responsible for ensuring that commercial practice at the agency is compliant with the regulations. In line with the Government's Transparency Agenda, all tender opportunities are published, including Single Tender Actions and Contracts over £10,000.

Commercial Directorate has developed Commercial Procedures and a Commercial Policy which act as the 2 primary control documents governing commercial activity at the agency.

Contractual Authority emanates from me as Accounting Officer and is delegated to individuals in specific posts (primarily Commercial Director, Head of Procurement and senior commercial managers) and is not transferable. Only those with Contractual Authority are allowed to commit the agency to any commercial activity. Contractual Authority is distinct from Financial Authority and no individual is permitted to exercise both for the same requirement.

The agency has developed an efficient and effective practice whereby all contracts are sponsored at Executive Team level. This is supplemented by making day-to-day contract management the shared responsibility of a business owner and a professional Commercial Advisor from within Commercial Directorate, who are supported by a professional Financial Advisor.

As an additional tier of governance, all major agency procurements are subject to scrutiny by the DfT Procurement Approval Board prior to award of contract.

Data controls

There have been significant changes to the agency data control framework since the exit in September 2015 of the IT outsource contract Partners Achieving Change Together (PACT) and bringing the responsibility for many of our IT Services in-house. In addition provision of online services has grown significantly.

The existing governance arrangements have worked well during these transitions with the Senior Information Risk Owner (SIRO) who is also the Director of Strategy, Policy and Communications, being accountable for information risk. The SIRO is supported by the DVLA Chief Information Security Officer (CISO) who is accountable for security across the agency estate.

Data control and risk is co-ordinated through a Data Governance Board (DGB) chaired by the SIRO and attended by subject matter experts from across the organisation. The Chief Executive Officer also attends this Board.

We have had 21 incidents of personal data breaches; none of which have required escalation to the Information Commissioner. Whilst this is a slight increase on the previous year (18 breaches 2014-15), it is still low level in terms of the 168 million transactions processed annually by the agency.

The agency has delegated authority to accredit its IT system from DfT to our CISO, who is also the DVLA Accreditor. The approach has been revised and simplified in line with new government guidance; this approach is the responsibility of the DVLA Accreditor and has been agreed at the DGB. Our systems are now being assessed against this new framework.

There has been a programme of security events across the agency to maintain awareness and ensure the correct behaviours are adopted by staff to protect our information. Our Information Asset Owners (IAOs) who have responsibility for specific data sets attend regular briefings on current trends in security and risks.

Fraud, error and debt

The management of fraud, error and debt is a critical part of good governance. Losses and recoveries are reported to Cabinet Office. Overall responsibility for the agency’s management of this area sits with the Director of Strategy, Policy and Communications, supported by a cross-agency Steering Group.

Counter fraud initiatives and fraud investigations are taken forward by the Counter Fraud and Intelligence Team, often in liaison with DVLA’s operational Criminal Intelligence Officers. The GIAA provides support and input to fraud investigations, advising on aspects of control and risk management.

The Department launched the updated Whistleblowing Policy in May 2015. It makes clear how to raise a concern, the process to follow and who to contact. DVLA collate and maintain a register which is used to populate a DfT centralised register.

Accounting Officer assurance

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk. It should provide reasonable and not absolute assurance of effectiveness. The system of internal control supports the achievement of DVLA's policies, aims and objectives, whilst safeguarding the funds and assets of the organisation, in accordance with HM Treasury's Managing Public Money.

As Accounting Officer for DVLA, I have responsibility for reviewing the effectiveness of the systems of internal control. This is primarily informed by the agency's Internal Audit reviews, along with the management assurance reporting of the managers within the agency who are responsible for the development and maintenance of the internal control framework.

Twice a year, a Management Assurance Statement review is undertaken to review all facets of management assurance, policy and practice. The 2015-16 Management Assurance Statement review asked agency senior managers to provide performance commentary and evidence on the application of 34 aspects of assurance. There were 28 areas of substantial assurance, 4 areas of assurance that were classed as moderate and 2 areas that had limited assurance level (which are access to system and IT technical resilience), where significant weaknesses were identified in the framework of governance. Responses were reviewed and agreed by subject matter experts, Internal Audit, ET, and DfT and signed off by Audit and Risk Committee. The areas with limited assurance correspond with those highlighted within the Head of Internal Audit opinion and an action plan is being drafted to address these going forward.

Audit and Risk Committee

The DVLA Board and Audit and Risk Committee assist in developing and overseeing governance assurance processes and the plans to address any identified weaknesses. This ensures that continual improvement of the systems remains a priority.

These processes apply to all agency activities and transactions in the business account and trust statement. The Chair of the Audit and Risk Committee reports regularly to the agency Board on the Audit and Risk Committee's views on the effectiveness of the agency's governance, risk management and internal control arrangements.

Internal audit

The DVLA internal audit team transitioned into the GIAA as of 1 November 2015. This move increases the independence of the Internal Audit function and follows wider government priorities for Internal Audit Services within the Civil Service. Benefits include greater consistency and joined up working for the provision of Internal Audit services across government.

GIAA carries out the internal audit reviews for the DVLA. This team operates to prescribe Public Sector Internal Audit Standards and complies with procedures and standards set by the GIAA. The internal audit reports provides me with an independent and objective opinion on the adequacy and effectiveness of the agency's system of internal control, together with recommendations agreed to by management for improvement.

The Head of Internal Audit has unfettered access to the Chair of the Audit and Risk Committee and as Accounting Officer; I also work closely with the DfT Head of Internal Audit within GIAA. The audit plan for the year is informed by the main risks to the agency's business and encompasses a broad range of internal controls. This includes assurance over the security and use of DVLA data, as well as contractual commitments and data protocols for those organisations that interact with DVLA.

Head of Internal Audit opinion

On the basis of the evidence obtained during 2015-16, the Head of Internal Audit was able to provide a moderate level of assurance that the DVLA's framework of governance, risk management and control is appropriately defined and working effectively.

The Head of Internal Audit has advised that this opinion reflects the maturity of the agency's Risk Management Framework; and the continued focus by the agency on further strengthening existing governance arrangements.

Established key controls were found to be generally working effectively but with some improvements required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. The areas for further improvements and which would benefit from strengthening procedural controls are predominantly areas impacted by the significant amount of change, such as IT functions, which have been brought in-house as a result of the exit from the PACT contract.

The cases where internal audit identified the need for control enhancements were not deemed significant in the context of the overall control environment. Where enhancements were proposed, corrective action has been agreed with management. Delivery against those actions is monitored closely by the Executive Team and, where relevant, by the appropriate governance board (such as the Data Governance Board and DVLA Audit and Risk Committee).

Actions agreed with management against weaknesses identified as part of the Internal Audit programme have contributed to the overall assurance reported within this Governance Statement.

Monitoring of specific control issues

Risks to the ongoing provision of IT Live Services to DVLA were highlighted as being greater than the agency's appetite.

A number of instances identified where the agency was not fully compliant with its own policies and procedures; mainly in relation to manual controls that the agency has had to put in place due to IT system limitations.

Actions to address these specific control issues are being implemented and closely monitored in line with the established arrangements described above.

In the opinion of the Head of Internal Audit there are no further significant weaknesses that fall within the scope of issues that should be reported here.

04 Remuneration and staff report

Remuneration report

Remuneration policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The review body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at Office of Manpower Economics.

During 2014-15, the agency established its own Remuneration Committee in line with Board best practice, chaired by a Non-Executive Director. Further details can be found within the Governance Statement.

Service contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be based on fair and open competition but also includes the circumstances when appointments may otherwise be made. Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. The standard period of notice to be given by directors is 3 months.

Salary and pension entitlements

The remuneration and pension interests of the Chief Executive and Directors are set out on pages 47 to 51.

The senior civil servant annual pay award bonus is determined by performance. These pay award bonuses are awarded to the top 25% of senior civil servants. They are made to reward in-year performance in relation to agreed objectives, or short-term personal contributions to wider organisational objectives.

Salary

Salary includes gross salary, overtime, recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the agency and recorded in these accounts. The Directors did not receive any non-cash benefits during the current or prior year.

Performance bonus

Performance is assessed annually for Directors through the appraisal processes stipulated by DfT and entitlement to performance enhancements or bonuses established in comparison across the DfT family through the departmental evaluation committee, chaired by the Permanent Secretary. The agency's Remuneration Committee provides advice to DfT on performance of Directors.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has 4 sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60 and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS, who were within 10 years of their normal pension age on 1 April 2012, remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the 2 schemes. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 3 years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers.

The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

For further details about the Civil Service pension arrangements visit civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Remuneration of the Executive Board Members – audited

Single total figure of remuneration

	Salary		**Performance bonus**		**Pension benefits**		**Total**	
	2015-16 £000	2014-15 £000	**2015-16 £000**	2014-15 £000	**2015-16 £000**	2014-15 £000	**2015-16 £000**	2014-15 £000
Chief Executive Oliver Morley[1]	130-135	125-130	10-15	-	20-25	5-10	165-170	135-140
Executive Board Members Iain Patterson[2] Director of Technology (to 29 February 2016)	105-110 (115-120 FYE[3])	115-120	5-10	-	45-50	40-45	160-165	155-160
Rachael Cunningham Finance Director	80-85	80-85	-	-	35-40	40-45	115-120	125-130
Phil Bushby HR and Estates Director	70-75	70-75	-	10-15	30-35	20-25	100-105	100-105

	Salary		Performance bonus		Pension benefits		Total	
	2015-16 £000	2014-15 £000	**2015-16 £000**	2014-15 £000	**2015-16 £000**	2014-15 £000	**2015-16 £000**	2014-15 £000
Andrew Falvey Commercial Director (from 12 May 2015, interim Commercial Director from 5 May 2014)	75-80	65-70 (70-75 FYE[3])	-	0-5	25-30	25-30	105-110	95-100
Tony Ackroyd Operations and Customer Services Director (from 30 June 2014)	85-90	65-70 (85-90 FYE[3])	-	-	30-35	20-25	120-125	90-95
Julie Lennard Strategy, Policy and Communications Director (from 11 August 2014)	80-85	50-55 (80-85 FYE[3])	10-15	-	30-35	15-20	125-130	70-75
Hugh Evans Strategy and Policy Director (to 10 August 2014)	-	20-25 (65-70 FYE[3])	-	0-5	-	(0-5)	-	20-25
David Hancock Operations and Customer Services Director (from 1 September 2013 to 29 June 2014)	-	20-25 (80-85 FYE[3])	-	-	-	0-5	-	25-30

[1] Oliver Morley does not participate in the PCSPS.

[2] Iain Patterson is employed by GDS as a full-time civil servant and was seconded to DVLA until 29 February 2016. He was paid directly by GDS.

[3] Full year equivalent.

Bonuses relate to those paid in 2015-16 in respect of 2014-15 performance. Bonuses to be paid in 2016-17 in respect of 2015-16 performance are yet to be determined. There were no benefits in kind.

Pension benefits included in the table above represent the actuarially assessed increase in pension benefits at retirement age arising due to in-year service, calculated on as per Finance Act 2013 rules.

Median staff pay multiples

	2015-16	2014-15
Band of highest paid director total remuneration (£000)	**145 - 150**	125 – 130
Median total remuneration (£)	**21,234**	21,791
Ratios	**6.95**	5.85
Number of employees receiving remuneration in excess of highest paid Director	-	-
Remuneration range for highest paid employee (£000)	**145-150**	125 - 130

Total remuneration within the calculation includes salary, non-consolidated performance related pay and benefits-in-kind. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The above ratios report the mid-point banded remuneration of the highest paid director in relation to the median remuneration of DVLA staff. The ratios are a reflection of the composition, by grade, of individuals employed at the agency. The highest paid director was awarded a performance related bonus in 2015-16 but not in 2014-15. This has led to an increase in the ratio.

Pension benefits of the Executive Board members – audited

	Real increase in pension and related lump sum at age 60 during year	Total accrued pension at age 60 and lump sum at 31/3/16	Cash Equivalent Transfer Values (CETV)		Real increase in CETV as funded by employer in year	Employer contribution to partnership pension account
			At 31/3/16	At 31/3/15		(To the nearest £100)
	£000	£000	£000	£000	£000	£
Oliver Morley[1]	N/A	N/A	N/A	N/A	N/A	21,000
Iain Patterson	2.5 - 5	5 - 10	78	41	24	-
Rachael Cunningham	0 - 2.5	15 - 20	207	170	14	-
Phil Bushby	0 - 2.5	10 - 15	159	128	13	-
Andrew Falvey	0 - 2.5	10 - 15	151	116	17	-
Tony Ackroyd	0 - 2.5	2.5 - 5	50	20	21	-
Julie Lennard	0 - 2.5	10 - 15	144	113	11	-
Hugh Evans	-	-	-	694	-	-
David Hancock	-	-	-	325	-	-

[1] Oliver Morley does not participate in the PCSPS.

Remuneration of the Non-Executive Board members – audited

	2015-16	2014-15
	£000	£000
Lesley Cowley (i)	**30 - 35**	10 – 15
Mike Brooks (ii)	**10 - 15**	15 – 20
Zillah Byng-Maddick (iii)	**-**	0 – 5
Christopher Morson	**20 - 25**	15 – 20
Emma West (iv)	**10 - 15**	0 - 5
Jeremy Boss (v)	**0 - 5**	-

The above include travel and subsistence expenses in accordance with civil service rates.

(i) Ms Cowley became Executive Chair on 20 October 2014

(ii) Includes remuneration in respect of DfT activities. Mike Brooks resigned on 30 September 2015

(iii) Ms Byng-Maddick became a Non-Executive Board member on 28 October 2013 and resigned on 30 April 2014

(iv) Ms West became a Non-Executive Board member in November 2014

(v) Mr Boss became a Non-Executive Board member in January 2016.

Staff report

DVLA staff

DVLA employs 5,430 full- time equivalent staff in Swansea and is one of the largest employers in South Wales.

DVLA largely sourced its IT service from its main provider Concentrix, with Fujitsu as a sub contractor. The expiry of the PACT contract (PACT Exit) on 11 September 2015, offered the opportunity for DVLA to change the way it commissions and provides its IT functions by in sourcing both the capability and responsibility for its IT estate.

We retained many of the existing supplier staff; 302 staff transferred under the Transfer of Undertakings Protection of Employment (TUPE) regulations. We also provided job opportunities for existing staff and others in the local area. Over the next year we will focus on up skilling the staff in our IT department to deliver our strategy.

As a result of this, the spending of the agency has changed.

	2015-16	2014-15
	£000	£000
Staff costs	**167,459**	151,056
ICT costs	**125,675**	120,048

Staff costs have increased by £16.4 million, due to increased project staff expenditure in delivering PACT Exit, an increase in staff numbers following the transfer of TUPE staff, the cost of a voluntary exit scheme and a voluntary redundancy scheme offered as a result of exiting the PACT contract and the new fair deal policy.

ICT costs have increased by £5.6 million due to programme costs increasing by £12.9 million and operating costs reducing by £7.3 million. These changes are as a result of delivering PACT Exit.

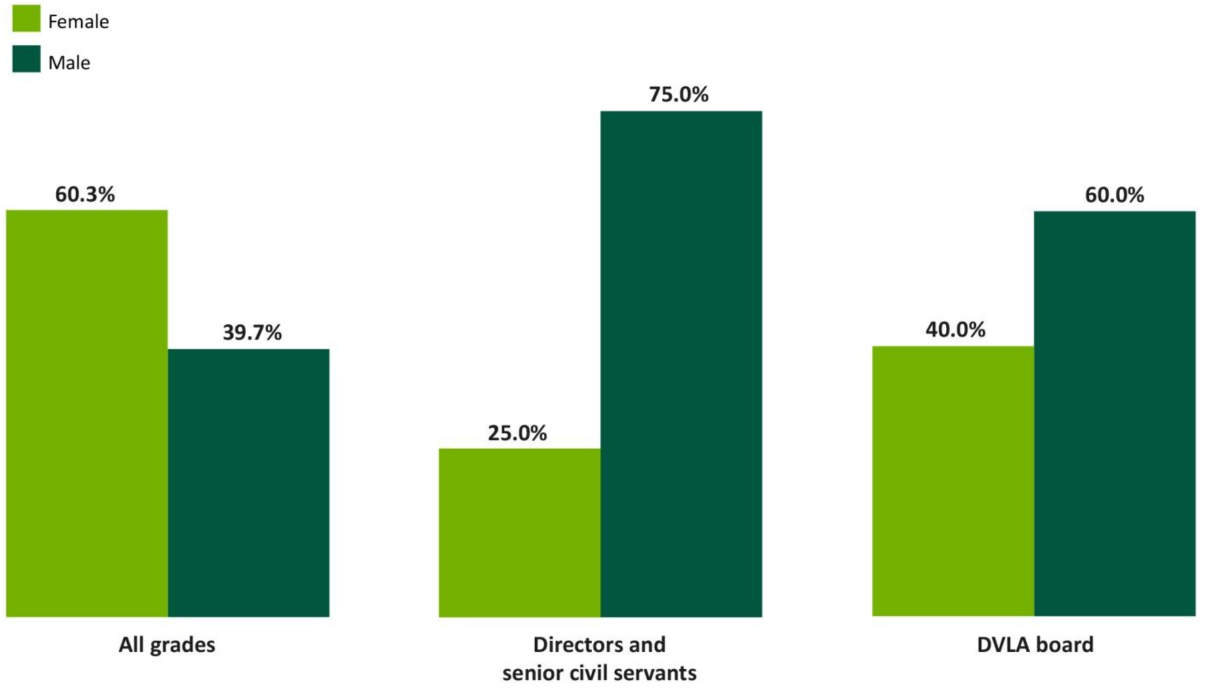
The overall cost of the PACT Exit in 2015-16 was £39.9 million and this will deliver savings as projected in the business case.

These figures have been included in the agency's latest business plan and comprehensive spending review settlement.

Number of senior civil service staff by band

SCS band	2015-16	2014-15
Band 2	**1**	1
Band 1	**7**	6
Total Number	**8**	**7**

Staff composition by gender – board members, directors and senior civil servants and all grades



Staff numbers and related costs – audited

Staff costs and average number of persons employed, excluding staff managed by DfT, comprise:

	Permanently employed staff	**Short-term employment contract and agency staff**	**2015-16 Total**
	£000	**£000**	**£000**
Wages and salaries	**130,014**	**2,323**	**132,337**
Social security costs	**8,211**	**91**	**8,302**
Other pension costs **(i)**	**26,432**	**388**	**26,820**
Total	**164,657**	**2,802**	**167,459**
	FTEs	**FTEs**	**FTEs**
Total directly employed	**5,263**	**143**	**5,405**

(i) Includes the impact of The New Fair Deal policy that allows employees who are transferred from the public sector to a non-public sector employer under TUPE terms to continue to access their previous public sector pension scheme. It also covers employees who transfer back to the public sector from a private employer.

	Permanently employed staff	Short-term employment contract and agency staff	2014-15 Total
	£000	£000	£000
Wages and salaries	120,431	2,349	122,780
Social security costs	7,443	68	7,511
Other pension costs	20,577	188	20,765
Total	148,451	2,605	151,056
	FTEs	FTEs	FTEs
Total directly employed	5,087	85	5,172

The annual leave accrual at 31 March 2016 is £2,470,275 (31 March 2015: £3,369,147).

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'alpha' are unfunded multi-employer defined benefit schemes but DVLA is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation.

For 2015-16, employers' contributions of £25.0 million were payable to the PCSPS (2014-15: £20.8 million) at one of four rates in the range 20.0% to 24.5% (2014-15: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £277,831 (2014-15: £204,374) were paid to one or more of a panel of 3 appointed stakeholder pension providers. Employer contributions are age-related and ranged from 3.0% to 12.5% up to 30 September 2015 and from 8.0% to 14.5% (2014-15: 3.0% to 12.5%) from 1 October2015 onwards. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £10,100 - 0.5% of pensionable pay (2014-15: £13,247 - 0.8%) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Civil Service and other compensation schemes – exit packages - audited

Comparative data is shown in brackets for previous year.

Exit package cost band (£)	Number of compulsory redundancies agreed*	Number of other departures agreed	Total number of exit packages by cost band (Total cost)
<10,000	- (1)	- (2)	- (3)
10,000 – 25,000	- (1)	12 (-)	12 (1)
25,000 – 50,000	- (6)	34 (-)	34 (6)
50,000 – 100,000	- (1)	44 (-)	44 (1)
100,000 – 150,000	- (1)	- (-)	- (1)
Total number of exit packages by type	- (10)	90 (2)	90 (12)
2015-16 Total cost (£)	-	4,345,664	4,345,664
2014-15 Total cost (£)	441,824	12,025	453,850

*Compulsory redundancies were taken on an acquiesced basis, i.e. staff agreed to leave on compulsory terms

The increase in the departure costs and numbers is due a voluntary exit scheme and a Voluntary Redundancy scheme offered as a result of exiting the PACT contract.

Redundancy and other departure costs have been agreed in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the civil service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Consultancy expenditure

Expenditure on consultancy is shown in Note 3 of the business account.

Off-payroll engagement

Off-payroll engagements as of 31 March 2016, for more than £220 per day and that last longer than 6 months.

The following table summarises the situation on off-payroll engagements as at 31 March 2016

Number of existing engagements as of 31 March 2016	**4**
Number that have existed for less than one year at time of reporting	3
Number that have existed for between one and two years at time of reporting	1

All existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment. This is to determine whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months

Number of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	4
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	4
Number for whom assurance has been requested and received	4

Off-payroll engagements of Board members, and/or senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016

Number of off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, during the financial year.	**0**
Total number of individuals on payroll and off-payroll that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year. This figure should include both on payroll and off-payroll engagements.	**12**

Sick absence

Over the year DVLA has focused on improving and managing sick absence which improved in 2015-16 to 8.6 working days lost, compared to 8.9 days in 2014-15. Managers will continue to work towards the DfT target of 7 working days lost and work with staff on the agency's comprehensive attendance action plan.

Policy and procedures

The agency's key source of information for employees is the staff handbook, which includes terms and conditions, procedures and guidance about the employment relationship. The trade union is informed and consulted on changes which may affect the people they represent.

Modernising the Employment Contract

In 2015-16 the terms and conditions of the Modernising the Employment Contract (MEC) came into effect. These include changes to payments for travel time, on call and payment for overtime reduced to plain time and changes to premium payments.

The number of full-time equivalents (FTEs) that DVLA employs was 5,430 at 31 March 2016.

Workforce plan 2014-17 (Full-time equivalent)

March 2014	4,965
March 2015	5,147
March 2016	5,430
March 2017 (forecast)	5,497

DVLA learning and development

As part of the Civil Service Reform Plan, every civil servant should spend at least 5 days a year on their own learning and development, targeting those skills they need for their current and future roles. This can be met through many forms of learning, from e-learning to traditional training, team activities and coaching.

The agency ensures that all training needs are met by running face-to-face courses, combined with e-learning, coaching and mentoring which covers all requirements. In 2015-16 over 2,000 staff attended face-to-face training events and over 6,000 staff used e-learning.

Staff completed the following:

- corporate induction
- basic fire awareness
- health and safety awareness
- unconscious bias
- information assurance.

In 2015-16 DVLA won the DfT Apprentice of the Year award and 83 staff were successful in the following apprenticeships:

- Contact Centre
- Level 4 Leadership and Management higher
- ITQ Level 2
- Operational Delivery Profession Level 2/3.

DVLA achieved ACCA Approved Employer status for Trainee and Professional Development and are currently supporting AAT, ACCA and CIMA students.

The agency has also been working with local universities who have agreed to provide training for 20 DVLA staff on Swansea University's Computer Science Foundation course to improve our capability to support the organisation. Two Cardiff business school university students successfully secured a twenty week paid placement at DVLA.

Out of 41 civil servants allocated to the Member of Parliament (MP) and Member of European Parliament (MEP) Scheme, 10 DVLA staff were chosen to take part, 6 out of the 10 were allocated to the MP Scheme; the remainder were allocated to the MP talent pool.

Performance management – we adopted the Civil Service wide performance management process based on a 3 box system.

Communication

DVLA has a central corporate communications team that manages a core set of channels to provide staff with regular communications aligned with the agency strategy. We continue to use web chats so that staff have the opportunity to communicate with the Executive Team and senior managers in a live environment. Staff have access to both digital and paper based anonymous channels to raise concerns that require further information.

Diversity

DVLA has a large and diverse customer base dealing with over 500 million transactions a year. It is important that we reflect diversity in our workforce and develop staff and customer policies and procedures. These need to be inclusive and fair, whilst enabling us to discharge legal and business responsibilities.

To deliver our responsibilities we have appointed executive team diversity champions. These champions lead on specific areas of work within our staff networking groups to drive inclusion agendas forward for example, race, lesbian, gay, bi-sexual and transgender, gender, disability and anti-bullying and harassment. Our Non-Executive Directors are key supporters of the work on diversity and inclusion and bring valuable experiences and ideas to help us move forward.

DVLA staff have access to a range of training to build on their diversity and inclusion knowledge and all staff and managers undertake a computer based learning programme on unconscious bias. In January 2016, we held a very successful diversity conference, which offered learning and discussion opportunities for colleagues and external partners on a range of issues including race, intergenerational issues and transgender.

In 2015-16 we worked with the Welsh Government Equality Network and the Regional Equality Group. We continue to work with colleagues across the DfT family to share best practice and ideas on driving forward the diversity and inclusion agenda across the transport sector.

During the year we:

- focused on increasing the percentage of women in our senior grades
- continued to engage with local stakeholders such as the Swansea Ethnic Youth Support team to examine barriers which may exist and discourage those from the Black, Asian and Minority Ethnic (BAME) community applying to DVLA
- partnered with a range of local community groups to provide work placements (up to twelve weeks). The work placements were given training and work experience which included confidence building and job search skills
- provided community groups insight into our recruitment processes and procedures which included workshops on applying for competency based vacancies.

DVLA also worked with several organisations that help people who have been unemployed including those with disabilities. We are currently working with a local consultancy firm and others to establish Swansea as the first disability confident city.

We are supporters of Chwarae Teg, who work with policy-makers and educators to produce and commission cutting edge research. They manage and deliver projects that serve women, employers and educators throughout Wales. Their aim is to build a Wales where women achieve and prosper. DVLA’s women’s group Chrysalis was shortlisted for the Chwarae Teg Womenspire Public Sector Employer of the Year award for their work with women across DVLA.

05 Parliamentary accountability and audit report

Losses and special payments – audited

	2015-16 Number of cases	**2015-16 Value £**	2014-15 Number of cases	2014-15 Value £
Losses written off in year				
Cash losses due to abandoned claims for payments from customers (i)	6,526	263,513	1,397	74,740
Special payments				
Ex-gratia payments (ii)	1,325	254,023	1,185	239,076
Personal injury compensation	2	6,540	-	-

(i) Cash losses mainly relate to small underpayments from customers which are considered too small to pursue.

(ii) Ex-gratia payments are made to customers (without legal liability) in recognition of errors on the part of DVLA.

Constructive losses – audited

There are no constructive losses.

Fees and charges – audited

Fees and charges income and confirmation of compliance with cost allocation and charging requirements are shown in Note 2 of the business account.

Oliver Morley
Accounting Officer and Chief Executive, DVLA
6 July 2016

Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of Driver and Vehicle Licensing Agency for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Driver and Vehicle Licensing Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Driver and Vehicle Licensing Agency's affairs as at 31 March 2016 and of the net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued there under.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
14 July 2016

The Audit Report of the Comptroller and Auditor General to the House of Commons

I have audited the financial statements of the trust statement of the Driver and Vehicle Licensing Agency for the year ended 31 March 2016 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the trust statement of the Driver and Vehicle Licensing Agency and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the trust statement gives a true and fair view of the state of affairs of the collection and allocation of taxes, fines and penalties as at 31 March 2016 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued there under.

Opinion on other matters

In my opinion:

the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
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14 July 2016

The Comptroller and Auditor General Section 2 Report

Background

The Driver and Vehicle Licensing Agency ('the Agency') is responsible for the collection of Vehicle Excise Duty (VED) on behalf of the Secretary of State for Transport. VED is vehicle road use tax levied as an excise duty which must be paid for most types of vehicles used (or kept) on public roads in the United Kingdom. In 2015-16 the Agency recognised £5,930 million (2014-15: £6,023 million billion[1]) of VED revenue, a decrease of £93 million (1.5%) as reported in the Agency's Trust Statement. Cash collected decreased slightly from £5,968 million to £5,903 million. A decrease in VED income between 2014-15 and 2015-16 had previously been forecast by the Office for Budget Responsibility[2,] due to expected decreases in the average cost of licenses issued as vehicles continue to become more fuel-efficient.

Scope of Audit

Section 2 of the Exchequer and Audit Departments Act 1921 requires me to examine the Vehicle Excise Duty revenue accounts (reported by the Agency in the Trust Statement[3]) and to ascertain whether the Agency has in place adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of revenue, and that the Agency is duly carrying out any such regulations and procedure. I am also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons. This report, together with my audit opinions on the Agency's Trust Statement, together satisfy these requirements.

My team has examined the systems supporting collection, and obtained evidence on the adequacy and operation of its regulations and procedure, including consideration of the Agency's compliance and enforcement activities. My conclusion on the Agency's overall management of Vehicle Excise Duty is based on this examination, as well as taking into account evidence from our audit of the Trust Statement itself and information from other sources, including the results of available data on compliance levels.

Key findings

Levels of non-compliance in payment of Vehicle Excise Duty

The Roadside Survey on VED evasion is carried out every two years to estimate the rate of non-compliance (including through evasion) among vehicles seen on UK roads and the associated revenue loss. This survey results in the VED evasion statistics, an official release prepared by Department for Transport statisticians, covered by National Statistics standards and assurance reviews.

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[1]2014-15 Trust Statement figures are presented on a restated basis. Details can be found in Note 10 of the Trust Statement on page 105.

[2] http://budgetresponsibility.org.uk/docs/dlm_uploads/July-2015-EFO-234224.pdf

[3] The Trust Statement reports VED transactions on an accruals basis. It also includes other revenue streams collected by the Agency on behalf of the Consolidated Fund, including the HGV Road User Levy. As a result, in a number of areas including the Statement of Cash Flows the Trust Statement shows transactions on an aggregated basis for all revenue streams. In accordance with my statutory responsibilities, this report focuses purely on VED.

The latest release[4] is supported by a survey covering 256 sites across the UK, with over one million valid sightings of vehicle registration marks across all sites.

The estimation techniques used within the Roadside Survey are valid at a point in time and, as with any such technique, are prone to a level of statistical uncertainty. Nevertheless, the results represent the best available estimate of the level of VED evasion and suggest that there has been a measurable increase in non-compliance levels over the period.

As noted in the Performance Report (page 24), 1.4% of the vehicles observed in traffic were unlicensed. Although this remains a low level of evasion relative to estimates for some other tax collection regimes, it still represents a 0.8% increase on the figure recorded in the last survey performed in 2013. Based on an analysis weighted by average licence values for vehicle types, the Department's statisticians estimate a resulting loss to the exchequer of around £80 million. In Great Britain specifically[5], they estimate annual losses have risen from £35 million in June 2013 to £78 million in June 2015[6]. However, some of this revenue is likely to have been recovered subsequently through the DVLA's enforcement action with back duty being collected from vehicle keepers who have licensed their vehicles since the survey. Although it is not possible to draw a certain link, the increased evasion has coincided with the first full year of the significant changes to the collection procedures for Vehicle Excise Duty introduced in 2014-15 and these may have contributed to the reduced levels of income.

Impact of 2014-15 changes to Vehicle Excise Duty procedure

In 2014-15 the Agency implemented three significant changes to the collection and enforcement of Vehicle Excise Duty: enabling motorists to pay by Direct Debit; abolishing the paper tax disc; and amending the law so that vehicle tax automatically ends when a vehicle changes ownership, rather than transferring with the vehicle. The Agency discusses these changes further on page 24.

Payment by Direct Debit and timing of receipts

The introduction of payment of VED by Direct Debit increases the options for motorists to pay. All payments are in advance of the period in which the entitlement period, but the recent changes have added an option of paying monthly to the existing six-monthly and annual options.

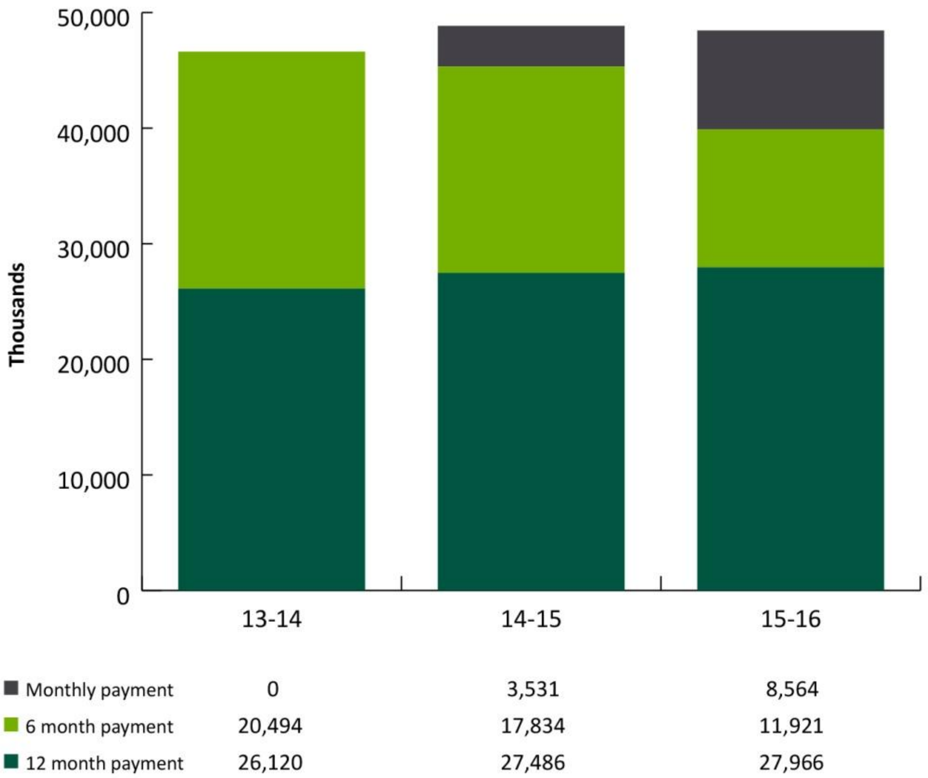
The addition of the monthly payment option has contributed to a short term timing difference in the receipt of cash as a number of motorists have transitioned from longer-term payment options. By way of illustration, if a motorist prepaid VED for 6 months in September 2014 and March 2015, then transitioned to monthly payments from September 2015, they will have made 12 months payment in the 2014-15 financial year but only 7 months' payment in the 2015-16 financial year. The graph on page 67 shows the split of VED transactions since this change was introduced. In 2014-15, approximately 7% of total licensing transactions were on a monthly Direct Debit basis, rather than being payments 6 monthly or annually in advance. In 2015-16 take up of monthly Direct Debit payment had increased further to 18% of the total.

[4] Department for Transport, June 2015 VED Evasion Statistics summary report, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479992/ved-2015.pdf

[5] Full comparatives are not available for Northern Ireland.

[6] Department for Transport, Data Table VED0301 supporting the June 2015 VED Evasion Statistics release, available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479993/ved-2015.zip

VED transactions since 2013-14



As reflected in the Statement of Cash Flows in the Trust Statement, this change has coincided with a period in which annual cash inflows reduced in both the latter half of 2014-15 and in 2015-16. While reported revenue dropped slightly in 2015-16, the decline in cash receipts has been significantly influenced by the short term effect of giving motorists the option to spread VED payments over longer periods. In the audited Trust Statement, this effect is reflected in decreasing deferred income balances (liabilities recognised to spread the benefit of prepaid amounts over the entitlement period) following the increased take-up shown above.

Trust Statement audited deferred income balances (£m)

31 March 2014	2,683
31 March 2015	2,366
31 March 2016	2,126

Assuming other factors remain consistent we would expect these cash flow timing differences to reduce in future years as the rate of change in payment profiles stabilises. Early indications are that this may have already begun. Agency data on VED cash receipts show that collections for the second six months of 2014-15 and the first six months of 2015-16 were respectively, £223 million and £189 million below the equivalent periods a year before; however, the second six months of 2015-16 showed an increase of £200 million on the same basis.

These timing differences should not be taken as a proxy for non-compliance levels or ultimate loss to the exchequer, for which the roadside survey continues to provide the best evidence.

Abolition of the paper tax disc and introduction of non-transferability

The withdrawal of the requirement to display a valid paper tax disc with a visible expiry date, and the introduction of non-transferability for VED on vehicle transfers (i.e. entitlement not transferring with cars when they are sold) may well have contributed to the increase in non-compliance seen in the roadside survey given the correlation of these changes with a worsening of non-compliance rates. Instances of non-compliance highlighted in the roadside survey include instances of deliberate evasion, but also unintentional non-compliance which may have increased as motorists adjust to the new rules. This hypothesis is consistent with (but cannot be proven by) the trend for non-compliance to be biased towards shorter periods where the vehicle was unlicensed[7].

While it is likely that the transition to new rules will have caused a temporary peak in non-compliance which will reduce as awareness improves, it is too early at this stage to draw a conclusion on whether the changes will result in a long term increase or decrease in non-compliance levels and the level of VED ultimately collected. The effectiveness of the steps the Agency takes in response to the increased tax gap will be critical to future outcomes.

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[7] Department for Transport, Data Table VED0402 supporting the June 2015 and June 2013 VED Evasion Statistics releases. The statistics show that 9% of vehicles detected as non-compliant in the June 2013 survey had not been licensed for a year or more; this fell to 5% for the June 2015 survey.

The Agency's response to increases in non-compliance rates

The Agency sets out in the Performance Report on page 24 the actions it has put in place since the 2015 roadside survey results, including:

- writing to all keepers of recently transferred used vehicles to clarify their obligations;
- using reminder letters to address prolonged non-compliance; and
- targeting specific groups with appropriate measures to increase compliance.

Other measures include an increased emphasis on measures designed to increase the ease of payment, such as the use of Electronic Vehicle Licensing through www.gov.uk.

Alongside these measures, the Agency maintains a number of enforcement regimes to address prolonged non-compliance. The measures used to detect and reduce evasion currently includes civil penalties; Magistrates' Court prosecutions, which may be settled in or out of court; together with the wheel clamping and impounding of unlicensed vehicles. Specific fines and penalties are disclosed in Note 4 to the Trust Statement on page 105. The Agency also makes use of Automatic Number Plate Recognition (ANPR) systems to improve detection of evasion.

Strategy for reducing non-compliance – building on current practice, the Agency has committed to develop and agree a VED evasion reduction strategy with HM Treasury and the Department by September 2016.

Conclusion

Based on their examination, my team found that the systems in place for the collection of Vehicle Excise Duty, managed by the Agency through a range of channels, including post office branches, Electronic Vehicle Licensing and motor dealers are reasonable in their design and were operated effectively throughout the year. My team's work suggests that the Agency's systems and processes have adapted to recent rule changes adequately.

However, the increase in VED non-compliance since these changes has been marked and although - at 1.4% - detected levels are significantly below tax gap estimates for other revenue streams, the upward trend presents a clear concern.

The Agency is rightly focusing on the actions it can take to increase awareness of the new procedures; to highlight unintended non-compliance; to make it easier for customers to pay; and to tackle persistent evasion through enforcement. The strategy should be ambitious in all of these areas, and focus on increasing compliance yield by identifying the most cost-effective way of targeting the resources available for enforcement. The Agency should also ensure it maximises the potential for working with, and learning from the experience of, other parts of government with significant enforcement roles such as HMRC and HM Courts and Tribunals Service.

In fulfilling my statutory duties under the Exchequer and Audit Act 1921, while recognising that no tax collection system can ensure that everyone meets their tax obligations, I conclude that in 2015-16, the Agency had framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. This assurance is subject to the observations on specific aspects of the administration of VED in this report.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
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14 July 2016

Financial statements

DVLA business account for 2015-16

Statement of comprehensive net expenditure for the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Programme Costs			
Operating costs	3	**276,653**	296,187
Staff Costs (i)		**167,459**	151,056
Depreciation, amortisation and impairment	5&6	**39,454**	40,407
Finance costs	4	**1,242**	1,604
Income	2	**(541,051)**	(541,194)
Net Operating (Income)		**(56,243)**	(51,940)
Other comprehensive expenditure			
Items that will not be reclassified to net operating costs:			
Net (gain) on revaluation of property, plant and equipment	5	**(99)**	(2,791)
Net (gain) on revaluation of intangibles	6	**-**	(1,026)
Total comprehensive (income) for the year ended 31 March 2016		**(56,342)**	(55,757)

All income and expenditure are derived from continuing operations. Notes forming part of these accounts appear on pages 76 to 98.

(i) A breakdown of staff costs is shown on page 54 in the Accountability report.

Statement of financial position as at 31 March 2016

	Note	31 March 2016 £000	31 March 2015 £000
Non-current assets			
Property, plant and equipment	5	**64,397**	70,964
Intangible assets	6	**43,658**	57,716
Trade and other receivables due after more than one year	7	**-**	14
Total non-current assets		**108,055**	128,694
Current assets			
Trade and other receivables	7	**31,446**	34,456
Cash and cash equivalents	8	**31,684**	23,685
Total current assets		**63,130**	58,141
Total assets		**171,185**	186,835
Current liabilities			
Trade and other payables due within one year	9	**(72,297)**	(58,466)
Provisions for liabilities and charges	11	**(3,325)**	(4,734)
Total current liabilities		**(75,622)**	(63,200)
Non-current assets less net current liabilities		**95,563**	123,635
Non-current liabilities			
Trade and other payables due after more than one year	9	**(22,436)**	(24,721)
Provisions for liabilities and charges	11	**(16,121)**	(19,473)
Total non-current liabilities		**(38,557)**	(44,194)
Assets less liabilities		**57,006**	79,441
Taxpayers' equity			
General fund		**7,534**	30,068
Revaluation reserve		**49,472**	49,373
Total taxpayers' equity		**57,006**	79,441

Notes forming part of the accounts appear on pages 76 to 98.

Oliver Morley
Accounting Officer and Chief Executive, DVLA
6 July 2016

Statement of cash flows for the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Cash flows from operating activities			
Net operating income		**56,243**	51,940
Adjustments for non cash items:			
Loss on disposal, depreciation, amortisation and impairment	5&6	**39,454**	40,407
Net financing costs	4	**1,242**	1,604
(Increase) in trade and other receivables	7	**(3,224)**	(1,436)
Increase/(Decrease) in trade payables	9	**7,819**	(5,988)
Auditor's remuneration – notional charges	3	**122**	122
(Decrease) in provisions	11	**(4,598)**	(5,957)
Net cash inflow from operating activities		**97,058**	80,692
Cash flows from investing activities			
Purchase of property, plant and equipment	5	**(686)**	(1,594)
Purchase of intangible assets	6	**(14,105)**	(12,958)
Proceeds from sale of property, plant and equipment	5	**13**	5
Net cash outflow from investing activities		**(14,778)**	(14,547)
Cash flows from financing activities			
Finance costs	4	**(1,405)**	(1,519)
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	9	**(1,976)**	(1,867)
DfT Supply funding received in year		**93,000**	70,000
Net cash received in financing activities		**89,619**	66,614
Payments of amounts due to the Consolidated Fund		**(163,900)**	(141,581)
Net increase/(decrease) in cash and cash equivalents in the year	8	**7,999**	(8,822)
Cash and cash equivalents at the beginning of the year	8	**23,685**	32,507
Cash and cash equivalents at the end of the year	8	**31,684**	23,685

Notes forming part of these accounts appear on pages 76 to 98.

Statement of changes in taxpayers' equity for the year ended 31 March 2016

	General Fund £000	Revaluation Reserve (i) £000	Total Reserves £000
Balance at 31 March 2014	40,764	45,556	86,320
Net operating income for the year to 31 March 2015	51,940	-	51,940
Non cash charge – auditor's remuneration	122	-	122
DfT Supply funding	77,483	-	77,483
Consolidated Fund Extra Receipts (CFERs) payable:			
Cherished Transfers	(60,649)	-	(60,649)
Personalised Registrations	(79,592)	-	(79,592)
Other Comprehensive Income			
Net gain on revaluation of property, plant and equipment	-	2,791	2,791
Net gain on revaluation of intangible assets	-	1,026	1,026
Balance at 31 March 2015	**30,068**	**49,373**	**79,441**
Net operating income for the year to 31 March 2016	**56,243**	**-**	**56,243**
Non cash charge – auditor's remuneration	**122**		**122**
DfT Supply funding	**84,976**		**84,976**
Consolidated Fund Extra Receipts (CFERs) payable:			
Cherished Transfers	**(67,218)**		**(67,218)**
Personalised Registrations	**(96,657)**		**(96,657)**
Other Comprehensive Income			
Net gain on revaluation of property, plant and equipment	**-**	**99**	**99**
Net gain on revaluation of intangible assets	**-**	**-**	**-**
Balance at 31 March 2016	**7,534**	**49,472**	**57,006**

(i) The Revaluation Reserve reflects the accumulated revaluation gains relating to non-current assets. The amount of the revaluation reserve that relates to intangible assets at 31 March 2016 is £16.8 million (31 March 2015: £16.8 million).

Notes to the accounts

Note 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the agency's business account for the purpose of giving a true and fair view has been selected. The particular policies adopted by the agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Adoption of revised standards

The following accounting standards and amendments to accounting standards have been adopted for the first time for the financial year beginning on 1 April 2015 and have not had a material impact on the DVLA:

IFRS 13 provides consistent guidance on the fair value measurement for all relevant balances and transactions covered by IFRS. Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context limiting the circumstances in which valuation is prepared under IFRS 13.

The FREM adopts IAS 16 and IAS 38 with the effect that assets held for service potential are valued on an existing use basis, typically Depreciated Replacement Cost.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2016, and have not been applied in these financial statements. The following new standards may affect the accounts if they are adopted by the Financial Reporting Manual, after further consultation:

IFRS 9 addresses classification, measurement and impairment of financial assets and is still subject to analysis and consideration by HM Treasury with a view to include in the 2018-19 FReM. It is thought that IFRS 9 will result in terminology changes only.

IFRS 15 covers the recognition of revenues from contracts with customers. It is not thought that this will materially affect the timing of recognition or amounts recognised.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The probable impact is that there will be earlier recognition of expenditure in relation to leases (amortisation and interest).

The three standards listed above have not been endorsed by the EU to date.

IFRS 9 and IFRS 15 are expected to be effective from 1 January 2018 and IFRS 16 is expected to be effective from 1 January 2019.

DVLA does not consider that any other new or revised standard or interpretation will have a material impact.

Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and inventories and certain financial assets and liabilities.

The financial statements have been prepared in accordance with the revised accounts direction issued by HM Treasury on 18 December 2015. They meet the relevant requirements of the FReM adapted IFRS. We are not aware of any disclosures or circumstances where these are inappropriate. The financial statements have been prepared on the going concern basis.

The business account does not include any amounts collected by the DVLA where it was acting as an agent of the Consolidated Fund rather than as Principal. Full details of income collected as Agent for the Consolidated Fund are in DVLA's trust statement published separately from but alongside these financial statements.

Income

Income from the sale of registration marks is recognised on receipt of payment for fixed price sales and on the fall of the auctioneer's hammer for sales at auction. Uncompleted sales are provided for after 90 days and are written out of sales after twelve months, with the related marks becoming available for resale. Fee income from the assignment, transfer and retention of cherished registration marks is recognised on receipt, when the transaction is processed, as is that from fee-bearing statutory services. All other income is recognised when the services and goods are issued.

Finance income and finance costs

As an Executive Agency, DVLA does not earn interest on funds invested.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs are recognised in net operating cost or income using the effective interest method.

Taxation

The agency is not liable to pay Corporation Tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to non-current assets. Income and expenditure is otherwise shown net of VAT.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances in non-interest bearing accounts. The agency does not have any bank overdrafts.

Non-current assets: property, plant and equipment

The agency revalues its non-current asset portfolio on 31 March each financial year in accordance with the requirements of the FReM. A full valuation of the agency's estate is carried out every 5 years. The last full valuation was undertaken on 31 March 2014 by

Joseph M L Funtek BSc (Hons) MRICS of Gerald Eve LLP; the existing use valuation basis was applied to the majority of assets save for those which are considered to be specialised in which case those assets were valued on a depreciated replacement cost basis.

A desktop valuation exercise is to be carried out in the interim period. The next desktop valuation is scheduled for 31 March 2017.

Plant and machinery, fixtures and fittings, computer equipment, motor vehicles and office equipment are revalued in accordance with price indices published by the Office of National Statistics (MM22 Producer Price Indices). Surpluses and deficits arising on revaluation are charges to the Revaluation Reserve. Where it is not possible for any such deficit to be offset by previous surpluses in the Revaluation Reserve, it is charged to revenue as are permanent diminutions in the value of fixed assets. Ownership of the agency's assets is vested in the Secretary of State for Transport. The minimum level for capitalisation is £5,000.

Non-current assets: intangible assets

The value of licences to operate the driver and vehicle systems is capitalised. Software development costs are capitalised, excluding any costs incurred in the planning and design stages of the project, which are clearly defined and separate from the build phase of a project. New expenditure on IT systems development is written off in the period in which it is incurred, unless a beneficial relationship to a future period can be established with reasonable certainty, in which case the charge is capitalised. The agency reviews its projects and operational software for impairment and revalues its intangible assets annually based on Depreciated Replacement Cost.

The value of the driver and vehicle databases cannot be estimated. The DVLA Personalised Registrations database, including unallocated vehicle registration marks, is a very large store of possible combinations of alpha-numeric characters and is affected by changes in opinion, taste and judgement. As a result, the potential future sales value is not recognised in the agency's statement of financial position, as it cannot be reliably estimated.

Depreciation and amortisation

Depreciation is provided on intangible and tangible non-current assets from the date they are commissioned into operational service, except for computer equipment, which is provided for at the date of purchase. When assets are revalued the depreciation continues on the revised value over the remaining useful life of the relevant asset. The estimated useful lives from new of the main categories of non-current assets are:

	Years
Plant and machinery	3 - 10
IT equipment	3 - 5
Purchased software	up to 10
Office equipment	5 - 10
Software licences/development	3 - 15
Fixtures and fittings	5 - 10
Motor vehicles	5 - 10

The estimated remaining useful lives of buildings on 31 March 2016 are:

- 33 years , Morriston site (excluding J and E blocks)
- 18 years, J and E blocks (Morriston site)
- 29 years, Richard Ley Development Centre at Swansea Vale.

The estimated useful lives of assets are reviewed regularly and, when necessary, revised. Land (freehold and leasehold) is not depreciated.

Leases

The agency recognises operating lease rentals which are charged to the statement of comprehensive net expenditure on a straight-line basis over the lease term.

Leases in which the agency assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Provisions policy

The agency makes provision for liabilities and charges in accordance with IAS 37 where, at the end of the current reporting period, a legal or constructive liability (i.e. a present obligation from past events) exists, the transfer of economic benefits is probable and a reasonable estimate can be made. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the rates set by HM Treasury. When the discount is unwound, the adjustment is recognised as an interest expense. Further details are provided in respect of the agency's most significant provisions below.

Modernisation of network services provision

In 2012-13 DVLA implemented plans for the phased closure of 39 local offices and 10 enforcement area offices to centralise operations in Swansea by December 2013.

Future payments to be made under the Provision for the modernisation of network services are discounted at the HM Treasury advised rates for General Provisions.

Early departure costs provision

The agency provides for future annual compensation payments to certain former employees who have taken early retirement. Compensation is payable from the date of retirement until age 60.

The agency is responsible for 20% of the liability to former employees that took early retirement between 1 October 1994 and 31 March 1996 and met certain criteria. This liability is provided for within the early departure provision. The remaining liability is met centrally by the Civil Superannuation Vote. For departures between April 1996 and March 1997, HM Treasury introduced capping arrangements that limit the central contribution for these departures to a maximum of £99,000 per annum.

The agency announced a Voluntary Early Retirement (VER) scheme in 2005-06 and a Flexible Early Retirement (FER) scheme in 2009-10. The agency is responsible in full for the liability to former employees who take early retirement under the VER and FER schemes and provides for the liability within the Early Departure Costs provision.

Future payments to be made under the Early Departure and Voluntary Retirement schemes are discounted at the HM Treasury advised rate of 1.37% (2014-15: 1.30%).

Tax officers' pensions and compensation payments provision

The agency makes payments in relation to costs of former taxation officers employed by local authorities prior to the creation of the Driver and Vehicle Licensing Centre in 1972. Certain individuals remained within the Local Government Pension Scheme. The agency contributes to the local authorities concerned towards the annual cost of these pensions. The agency also makes compensation payments to a number of individuals in respect of loss of emoluments when the Local Taxation Offices closed. A provision has been made for future costs. An actuarial valuation is carried out every 3 years to determine future liabilities, with the latest valuation carried out on the 31 March 2016.

Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme known as 'alpha', which is described in the Remuneration Report. The agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS and alpha. In respect of the defined contribution schemes, the agency recognises the contributions payable for the year.

Research and development

We consider our expenditure each year to determine if any is considered to be research and development.

In accordance with IAS 38 Intangible Assets, expenditure incurred on pure and applied research is treated as an operating charge in the year in which it is incurred. Development expenditure is for the development of specific business systems. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Development costs meeting the criteria for capitalisation are treated as intangible fixed assets and amortised as explained in the intangible non-current asset note (Note 6). Non-current assets acquired for use in development are depreciated over the expected useful life of the underlying system.

Private Finance Initiative (PFI) contract for estates

On the 4 April 2005, DVLA entered into a 20-year service concession agreement with Telereal Trillium (formerly Land Securities Trillium). This agreement falls within the scope of IFRIC 12 Service Concession Arrangements and has been set up to provide the following property outsourcing solutions:

- building maintenance
- office moves

- cleaning
- catering and vending
- furniture repair
- furniture replacement
- grounds maintenance
- waste management and pest control.

DVLA is invoiced on a monthly basis and this revenue expenditure is recorded as a service charge in the Statement of comprehensive net expenditure.

At the start of the contract, Telereal Trillium undertook a refurbishment of the Morriston site. Where the work is capital in nature (air conditioning, double-glazing, lifts and specialist cabling), the costs were capitalised on Independent Assessors' sign off for each floor as complete and ready for use. The air conditioning, double-glazing and lifts are depreciated over the length of the PFI contract. The cabling is depreciated over its expected useful life of 10 years. A PFI liability was created to reflect the liabilities relating to property, plant and equipment paid for under the PFI unitary charge. This creditor is reduced over the life of the contract as payments are made. In accordance with HM Treasury Financial Reporting Manual requirements, the interest part of the unitary charge relating to the assets capitalised has been calculated using the actuarial method.

Financial instruments

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are typically cash or rights to receive cash or equity instruments in another entity. Financial liabilities are typically obligations to transfer cash. A contractual right to exchange financial assets or financial liabilities with other entities will also be a financial asset or liability, depending on whether the conditions are potentially favourable or adverse to the reporting entity.

Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents. These are classified as loans and receivables. The agency initially recognises these assets on the date that they are originated, and derecognises them when the contractual rights to the cash flows from the asset expire.

Trade and other receivables are recognised initially at fair value on the date that they originated. Fair value is usually at the original invoiced amount. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Non-derivative financial liabilities comprise trade and other payables, obligations under finance leases and obligations under on-balance sheet PFI contracts. The agency recognises these liabilities initially on the trade date at which the agency becomes a party to the contractual provisions of the instrument, and derecognises when its contractual obligations are discharged or cancelled or expired. Trade and other payables are recognised initially at fair value. Fair value is usually at the original invoiced amount. Subsequent to initial recognition they are measured at amortised cost.

Impairment of financial assets

The agency assesses at each balance sheet date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date, and the loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The agency does not hold any derivative financial instruments.

Contingent liabilities

In accordance with IAS 37, the agency discloses as contingent liabilities potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the agency's control, unless their likelihood is considered to be remote. Guarantees, indemnities and undertakings are treated as contingent liabilities.

In addition to contingent liabilities disclosed in accordance with IAS 37, the agency discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted.

Contingent assets

In accordance with IAS 37, the agency discloses contingent assets that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the agency and where an inflow of economic benefits is probable.

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements set out below.

Provisions for liabilities and charges – the main estimates relate to the discount rate which is provided by HM Treasury and estimates of future spend in the Modernising Network Services provision, in particular regarding the elements relating to onerous leases.

The critical assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year relate to the estimated useful economic life of intangible assets. These are based on management's judgement of assets of a similar nature and historical trends and are revised where appropriate. Where material, the cost of untaken staff leave has been estimated and accrued.

Consolidated fund extra receipts

Payments due to the Consolidated Fund from the business account represent amounts in excess of costs for DVLA personalised registration/cherished transfer transactions. The income from these transactions is only deemed as due to the Consolidated Fund after the recovery of these costs. The surplus Consolidated Fund Extra Receipts are recognised in the statement of taxpayers' equity in compliance with the 2015-16 FReM.

Supply funding

Supply funding is provided by DfT and is recognised as financing within the Statement of changes in taxpayers' equity.

Note 2. Statement of Operating Income/ (Cost) by Operating Segment

2015-16 Operating Segments	Fees and charges £000	DVLA personalised registrations £000	VED Collection and Enforcement £000	Other Government Departments £000	Total £000
Operational Expenditure	(326,944)	(5,526)	(143,408)	(8,930)	(484,808)
External revenue	423,110	102,183	6,828	8,930	541,051
Net operating income/(cost)	96,166	96,657	(136,580)	-	56,243

2014-15 Operating Segments	Fees and charges £000	DVLA personalised registrations £000	VED Collection and Enforcement £000	Other Government Departments £000	Total £000
Operational Expenditure	(311,088)	(7,559)	(158,895)	(11,712)	(489,254)
External revenue	436,194	87,150	6,138	11,712	541,194
Net operating income/(cost)	125,106	79,591	(152,757)	-	51,940

The segments used reflect how management information is provided to the Executive Team (ET). An analysis of assets and liabilities by segment is not regularly provided to the Chief Executive or ET. The information on the nature of the segments and the significant income streams are provided in the Performance Report – Finance and Efficiency.

Within net operating income/ (cost) are Consolidated Fund Extra Receipts (CFERs) of:

£67.2 million (2014-15: £60.6 million) in respect of cherished transfer transactions brought to account in fees and charges and

£96.7 million (2014-15: £79.6 million) in respect of DVLA personalised registrations.

DVLA complies with the cost allocation and charging requirements set out in the HM Treasury Fees and Charges guide. The agency's financial objective is to recover the full cost of keeping the vehicle and driver registers and fees (where applicable) are set to cover these costs. For fee setting purposes, rather than ring-fencing fees and related expenditure, we have a Section 102 order that allows us to pool these fees and costs; the total fees, costs and surplus are disclosed in the above note.

Note 3. Operating costs

	2015-16	2014-15
	£000	£000
Operating costs		
ICT Services		
Operational	**70,367**	77,706
Programme	**55,308**	42,342
Agents' fees (i)	**34,573**	54,733
Postage & Printing	**40,729**	49,709
PFI Estates unitary charge	**18,714**	18,107
Credit card charges	**15,334**	14,017
Accommodation	**5,609**	6,336
Medical practitioners	**16,273**	12,677
Shared Services	**8,930**	7,778
Professional services	**2,669**	3,404
Maintenance of machinery and vehicles	**3,234**	3,323
Travel & Subsistence	**1,171**	1,267
Staff related	**1,604**	1,917
Consultancy	**335**	133
Auditor's remuneration (ii)	**122**	122
Other	**2,242**	1,617
Net (decrease)/increase in provisions	**(561)**	999
Total Operating costs	**276,653**	296,187

(i) Post Office costs have reduced due to an increase in the use of digital channels and also the centralisation of Northern Ireland vehicle licensing activities.

(ii) As an Executive Agency, the auditor's remuneration is a notional fee for the DVLA business account of £91,000 (2014-15: £90,550) along with a notional fee for the statutory audit of the trust statement of £31,000 (2014-15: £31,060).

Note 4. Finance costs

	2015-16	2014-15
	£000	£000
Finance Costs		
Interest on imputed finance lease part of on-balance sheet PFI contracts	**1,399**	1,508
Interest on finance lease liabilities	**6**	11
(Creation)/Unwinding of discount and impact of changes in discount rate on provisions (i)	**(163)**	85
Total finance costs	**1,242**	1,604

(i) Discount rate changes made to reflect future liability payments at today's prices, based on the latest discount rates published by HM Treasury.

2015-16	Land £000	Buildings (excl PFI fit out) £000	IT Hardware £000	Plant and Machinery £000	Furniture and Fittings (incl PFI fit out) £000	Motor Vehicles £000	Total £000
Cost or valuation							
At 1 April 2015	4,080	64,648	6,719	25,636	23,836	911	125,830
Additions	-	-	512	106	68	-	686
Disposals	-	-	-	-	(33)	(36)	(69)
Transfer	-	-	-	-	-	-	-
Revaluations	-	-	104	198	20	5	327
At 31 March 2016	**4,080**	**64,648**	**7,335**	**25,940**	**23,891**	**880**	**126,774**
Depreciation							
At 1 April 2015	-	12,712	3,910	19,091	18,510	643	54,866
Charged in year	-	1,756	666	3,193	1,557	180	7,352
Disposals	-	-	-	-	(35)	(34)	(69)
Transfer	-	-	-	-	-	-	-
Revaluations	-	-	61	145	20	2	228
At 31 March 2016	**-**	**14,468**	**4,637**	**22,429**	**20,052**	**791**	**62,377**
Net book value at 31 March 2015	4,080	51,936	2,809	6,545	5,326	268	70,964
Net book value at 31 March 2016	4,080	50,180	2,698	3,511	3,839	89	64,397
Asset financing							
Owned	3,649	28,366	2,698	3,511	633	-	38,857
Finance Lease	-	-	-	-	-	89	89
On-balance sheet PFI contracts	431	21,814	-	-	3,206	-	25,451
Net book value at 31 March 2016	**4,080**	**50,180**	**2,698**	**3,511**	**3,839**	**89**	**64,397**

Note 5. Property, plant and equipment

2014-15	Land £000	Buildings (excl PFI fit out) £000	IT Hardware £000	Plant and Machinery £000	Furniture and Fittings (incl PFI fit out) £000	Motor Vehicles £000	Total £000
Cost or valuation							
At 1 April 2014	4,080	62,269	5,192	13,429	35,459	926	121,355
Additions	-	-	1,473	113	11	-	1,597
Disposals	-	-	-	(103)	(22)	(11)	(136)
Transfer	-	-	-	11,855	(11,855)	-	-
Revaluations	-	2,379	54	342	243	(4)	3,014
At 31 March 2015	4,080	64,648	6,719	25,636	23,836	911	125,830
Depreciation							
At 1 April 2014	-	11,038	3,430	6,116	25,575	464	46,623
Charged in year	-	1,674	444	2,455	3,389	191	8,153
Disposals	-	-	-	(122)	-	(11)	(133)
Transfer	-	-	-	10,771	(10,771)	-	-
Revaluations	-	-	36	(129)	317	(1)	223
At 31 March 2015	-	12,712	3,910	19,091	18,510	643	54,866
Net book value at 31 March 2014	4,080	51,231	1,762	7,313	9,884	462	74,732
Net book value at 31 March 2015	4,080	51,936	2,809	6,545	5,326	268	70,964
Asset financing							
Owned	3,649	29,193	2,809	6,545	677	2	42,875
Finance Lease	-	-	-	-	-	266	266
On-balance sheet PFI contracts	431	22,743	-	-	4,649	-	27,823
Net book value at 31 March 2015	4,080	51,936	2,809	6,545	5,326	268	70,964

Valuation of assets

The net book value of land includes freehold £3.5 million (2014-15: £3.5 million) and leasehold £0.6 million (2014-15: £0.6 million). Leasehold is made up of Richard Ley Development Centre £0.2 million (125 year lease) and Fforestfach £0.4 million (999 year lease). The net book value of buildings relates to DVLA property with PFI buildings/refurbishment having a net book value of £22 million (2014-15: £22.7 million).

Analysis of depreciation, amortisation and impairment line in statement of comprehensive net expenditure.

	2015-16 £000	2014-15 £000
Depreciation of property, plant and equipment	7,352	8,153
(Profit) on disposal of property, plant and equipment and intangibles	(13)	(5)
Amortisation of intangible assets (note 6)	32,115	32,259
	39,454	40,407

Note 6. Intangible assets

The agency holds a perpetual software licence with Hewlett Packard for the right to use components of DVLA's driver and vehicle software. Development work undertaken by the agency that adds value to this is capitalised. In addition, purchased software licences are capitalised as intangibles.

2015-16	Software Licences	Software Development	Assets under Construction	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2015	5,501	252,854	8,037	266,392
Additions	-	-	18,057	18,057
Transfer	12,973	12,389	(25,362)	-
Disposals	-	-	-	-
Revaluation	-	-	-	-
At 31 March 2016	**18,474**	**265,243**	**732**	**284,449**
Amortisation				
At 1 April 2015	4,506	204,170	-	208,676
Charged in year	2,044	30,071	-	32,115
Disposals	-	-	-	-
At 31 March 2016	**6,550**	**234,241**	**-**	**240,791**
Net book value at 31 March 2015	995	48,684	8,037	57,716
Net book value at 31 March 2016	**11,924**	**31,002**	**732**	**43,658**

2014-15	Software Licences	Software Development	Assets under Construction	Total
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2014	5,453	240,154	6,778	252,385
Additions	-	-	12,981	12,981
Transfer	23	11,699	(11,722)	-
Disposals	-	-	-	-
Revaluation	25	1,001	-	1,026
At 31 March 2015	5,501	252,854	8,037	266,392
Amortisation				
At 1 April 2014	2,785	173,632	-	176,417
Charged in year	1,721	30,538	-	32,259
Disposals	-	-	-	-
At 31 March 2015	4,506	204,170	-	208,676
Net book value at 31 March 2014	2,668	66,522	6,778	75,968
Net book value at 31 March 2015	995	48,684	8,037	57,716

The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model would have been £43.04 million (2014-15: £57.2 million).

Intangible additions of £18.1 million (2014-15: £12.9 million) have been included in respect of software under development which is due to be completed and brought into use in future years. Of the net book value at 31 March 2016 £nil (31 March 2015: £8.5 million) has been financed by finance leases in respect of assets to support the Drivers' Re-engineering Project (DRP).

There were no contractual commitments for intangibles as at 31 March 2016 or 31 March 2015.

Significant intangible assets controlled by the agency are detailed below:

	31 March 2016			31 March 2015		
Asset	**Remaining useful economic life (months)**	**Net Book Value £000**	**£000**	**Remaining useful economic life (months)**	**Net Book Value £000**	**£000**
DVLA personalised registrations	1		85	13		1,111
Vehicle System Software						
Re-platforming	-		-	-		-
Drivers re-engineering						
Phase 1	-	-		10	6,310	
Phase 2	-	-		10	754	
			-			7,064
Ten Year Renewal						
Phase 2	-		-	10		1,483
Smart Tachographs	-	-		-	-	
Smart Tachographs – Phase 1	9	430		21	1,004	
			430			1,004
Drivers casework system (CASP) -						
Technical Refresh	23		9,239	35		14,059
Weblogic	3		313	15		1,567
Payment Card Data Security	5		371	17		1,263
Abolition of Tax Disc	24		687	36		1,031
VED Direct Debits	24		2,225	36		2,275
IBM Extended Licence Agreement	33		11,892	-		-
Vehicle Management and Personalised Registrations	24		2,113	-		-
Digital Services Platform	117		2,278	-		-
Others			14,023			26,859
Total			43,658			57,716

Remaining useful economic lives are in accordance with the agency's IT transformation strategy.

Note 7. Trade and other receivables

	31 March 2016 £000	31 March 2015 £000
Amounts falling due within one year:		
Trade receivables(i)	**3,110**	1,642
Other receivables	**264**	236
Public sector receivables	**9,569**	1,086
Amounts due from DfT in respect of Supply Funding	**-**	6,200
VAT reclaimable	**-**	4,751
Concentrix/IBM prepayment – IT equipment	**-**	463
Concentrix/IBM prepayment – service delivery	**931**	3,074
Other prepayments	**4,443**	3,766
Accrued income	**13,129**	13,238
	31,446	34,456
Amounts falling due after more than one year		
Concentrix/IBM prepayment – Service delivery	**-**	14
	-	14
Total	**31,446**	34,470

(i) Trade receivables 2015-16 of £3.1 million (2014-15: £1.6 million) includes £1.1 million (2014-15: £0.7 million) in relation to DVLA personalised registrations auctions. This amount will, after deduction of costs, be paid over to HM Treasury during the subsequent financial year.

Note 8. Cash and cash equivalents

	31 March 2016 £000	31 March 2015 £000
At 1 April 2015-2014	**23,685**	32,507
Net change in cash and cash equivalent balances	**7,999**	(8,822)
At 31 March 2016-2015	**31,684**	23,685

Note 9. Trade and other payables

	31 March 2016	31 March 2015
Amounts falling due within one year	**£000**	£000
Trade payables	**9,988**	5,293
Accruals and deferred revenue	**36,076**	32,948
Current part of finance leases	**104**	204
Current part of imputed finance lease part of on balance sheet estates PFI contract	**2,181**	2,066
Cash balance payable to the Consolidated Fund	**17,909**	17,933
Amounts due to DfT in respect of Supply Funding	**1,775**	-
Other – capital accrual	**3,974**	-
VAT	**290**	22
	72,297	58,466
Amounts falling due after more than one year:		
Finance leases	**-**	105
Imputed finance lease part of on-balance sheet estates PFI contract	**22,436**	24,616
	22,436	24,721
Total	**94,733**	83,187

The movements relating to the finance lease part of the Estates PFI contract are as follows:

	2015-16	2014-15
Imputed finance lease part of on-balance sheet Estates PFI contract	**£000**	£000
At 1 April 2015	**26,682**	28,638
Amount paid in relation to assets capitalised	**(2,065)**	(1,956)
At 31 March 2016	**24,617**	26,682

Note 10. Financial instruments

Fair values

Due to the short-term nature of the financial instruments held, with the exception of Finance Lease and PFI liabilities, the carrying value is considered to represent the fair values. The other financial instruments, where carrying value is considered to represent fair values, are accounts payables, accounts receivables and cash. The fair values of the agency's financial liabilities which differ from carrying amount as at 31 March 2016 are shown below.

	2015-16 Fair Value £000	**2015-16 Carrying amount £000**	2014-15 Fair Value £000	2014-15 Carrying amount £000
Financial liabilities				
- Imputed finance lease part of on-balance sheet PFI contracts	**24,023**	**24,616**	26,032	26,682
- Finance leases	**101**	**105**	303	309
Total financial liabilities	**24,124**	**24,721**	26,335	26,991

The fair values above have been calculated using the discount rate implicit in the finance leases and PFI contract.

The agency has examined its contracts to identify embedded derivatives and concluded that where identified these are closely linked to the host contract and therefore need no adjustment.

Financial risk management

The agency's activities expose it to the following financial risks:

- Credit risk – the possibility that the other parties might fail to pay amounts due to the agency.
- Liquidity risk – the possibility that the agency might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the agency as a result of changes in such measures as interest rates movements or foreign exchange rate movements.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the agency's customers or counterparties fail to fulfil their contractual obligations to the agency. Some of the agency's customers and counterparties are other public sector organisations. There is no credit risk from these organisations.

For those customers and counterparties that are not public sector organisations, the agency has policies and procedures in place to ensure credit risk is kept to a minimum.

Exposure to credit risk

The carrying amount of the agency's financial assets is consistent with fair value and represents the maximum credit exposure.

Financial Assets	31 March 2016	31 March 2015
	£000	£000
Cash and cash equivalents (note 8)	**31,684**	23,685
Loans and receivables (note 7)		
- Trade receivables	**3,110**	1,642
- Other receivables	**264**	236
- Public sector receivables (includes VAT)	**9,569**	12,037
- Accrued income	**13,129**	13,238
Total loans and receivables	**26,072**	27,153
Total financial assets	**57,756**	50,838

The ageing of receivables (gross) at the reporting date was:

	31 March 2016	31 March 2015
	£000	£000
Not past due	**24,121**	26,602
Past due 0-30 days	**1,660**	63
Past due 31-120 days	**221**	475
More than 120 days	**70**	13
Total	**26,072**	27,153

There is no impairment provision in either year as the agency believes that no allowance is necessary in respect of any of its trade receivables.

Liquidity risk

As the cash requirements of the agency are met through funds voted by Parliament, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body.

Market risk

The agency is exposed to very limited market risk. It does not deal in financial transactions and also has very limited exposure to foreign exchange as the business is based in the UK. In addition, cash balances are held in non-interest bearing bank accounts.

Note 11. Provisions for liabilities and charges

2015-16	Modernisation of network services (i)	Early Departure costs	Tax officers' Pension costs	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2015	**17,802**	**1,687**	**3,198**	**1,520**	**24,207**
Provided in the year	**-**	**401**	**-**	**-**	**401**
Provision not required written back	**(628)**	**-**	**(270)**	**(64)**	**(962)**
Provisions utilised in the year	**(2,359)**	**(1,206)**	**(349)**	**(123)**	**(4,037)**
Unwinding of discount and impact of changes in discount rate (ii)	**(206)**	**11**	**24**	**8**	**(163)**
Balance at 31 March 2016	**14,609**	**893**	**2,603**	**1,341**	**19,446**

(i) The carrying value of the modernisation of network services provision relates to estates costs.

(ii) Discount rate changes made to reflect future liability payments at today's prices, based on the latest rates published by HM Treasury.

2014-15	Modernisation of network services	Early Departure costs	Tax officers' Pension costs	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2014	22,563	2,861	3,576	1,079	30,079
Provided in the year	590	25	-	564	1,179
Provision not required written back	-	(86)	(95)	-	(181)
Provisions utilised in the year	(5,252)	(1,150)	(432)	(121)	(6,955)
Unwinding of discount and impact of changes in discount rate	(99)	37	149	(2)	85
Balance at 31 March 2015	17,802	1,687	3,198	1,520	24,207

Analysis of expected timing of discounted cash flows

2015-16	Modernisation of network services	Early Departure costs	Tax officers' Pension costs	Other	Total
	£000	£000	£000	£000	£000
Not later than one year	**2,362**	**438**	**397**	**128**	**3,325**
Later than one year and not later than five years	**6,300**	**455**	**1,283**	**569**	**8,607**
Later than five years	**5,947**	**-**	**923**	**644**	**7,514**
Balance at 31 March 2016	**14,609**	**893**	**2,603**	**1,341**	**19,446**

Analysis of expected timing of discounted cash flows

2014-15	Modernisation of network services	Early Departure costs	Tax officers' Pension costs	Other	Total
	£000	£000	£000	£000	£000
Not later than one year	3,319	824	464	127	4,734
Later than one year and not later than five years	6,663	863	1,275	570	9,371
Later than five years	7,820	-	1,459	823	10,102
Balance at 31 March 2015	17,802	1,687	3,198	1,520	24,207

Modernisation of network services

Future payments to be made under the Provision for the modernisation of network services are discounted at the HM Treasury advised rates for General Provisions as shown below:

Discount rates	31 March 2016	31 March 2015
0 to 5 years	-1.55%	-1.50%
5 to 10 years	-1.00%	-1.05%
More than 10 years	-0.80%	2.20%

Early departure costs

The agency meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme (PCSPS)/Stakeholder scheme benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS/Stakeholder schemes over the period between early departure and normal retirement date of age 60. The agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 1.37% (2014-15: 1.30%) in real terms.

Tax officer pension costs

Under the Pension Increase Act 1971, the agency has a liability to contribute to the pensions of ex local taxation office staff who were employed on driver and vehicle licensing work before the creation of the Driver and Vehicle Licensing Centre. Under the Vehicle and Driving Licence (Compensation to Officers) Regulations 1977, the agency makes compensation payments to local authority staff in respect of loss of emoluments when the local taxation offices closed. The provision is based on advice from the Government Actuary's Department, and is re-assessed normally every three years with a full revaluation last carried out on 31 March 2016.

Following the estimations of future cash flows provided by the Government Actuary's Department future payments to be made in relation to this provision have been discounted at the HM Treasury advised rate of 1.37% (2014-15: 1.30%).

Other – Shared Services

DVLA has a contractual obligation to pay an 'Unavoidable Cost' for a property occupied by Shared Services Arvato (previously occupied by DfT Shared Service Centre prior to divestment on 1 June 2013), in the form of a monthly unitary charge. The carrying value of the provision at the end of the 2015-16 financial year is £1.3 million (2014-15: £1.5 million).

Note 12. Commitments under leases

Operating leases

Future payments under operating leases comprise:	**31 March 2016 £000**	31 March 2015 £000
Buildings		
Not later than one year	**293**	287
Later than one year and not later than five years	**232**	163
	525	450

Other:	**31 March 2016 £000**	31 March 2015 £000
Not later than one year	**166**	277
Later than one year and not later than five years	**-**	111
	166	388

Finance leases

Future payments under finance leases comprise:	**31 March 2016 £000**	31 March 2015 £000
Other:		
Not later than one year	**105**	210
Later than one year and not later than five years	**-**	105
Less interest element	**(1)**	(6)
	104	309

Expenditure is capitalised and depreciated over the life of the associated asset and the finance lease creditor is released over the five year life of the agreement. Finance lease interest is expensed at a constant periodic rate on the outstanding balance of the liability.

Note 13. Commitments under Private Finance Initiative (PFI) on-balance sheet contracts

On-balance sheet

	31 March 2016 £000	31 March 2015 £000
Future payments under on-balance sheet Estates PFI contract for the following periods comprise:		
Not later than one year	3,464	3,464
Later than one year and not later than five years	13,857	13,857
Later than five years	13,857	17,321
	31,178	34,642
Less interest element	(6,561)	(7,960)
	24,617	26,682

Charge to the Statement of comprehensive net expenditure and future commitments

The total amount charged to the statement of comprehensive net expenditure in respect of the service part of on-balance sheet PFI transactions was £18.7 million (2014-15: £18.1 million) and the payments to which the agency is committed during the next year, excluding amounts already provided for in the modernisation of network services provision (note 11), analysed by the date of payment are as follows:

	2015-16 £000	2014-15 £000
Not later than one year	18,298	17,552
Later than one year and not later than five years	79,639	77,362
Later than five years	89,536	110,400
	187,473	205,314

DVLA's estates development and refurbishment programme is delivered through the Estates PFI contract with Telereal Trillium. Assets are capitalised in line with the agency's capitalisation policy and a corresponding PFI liability recognised. The annual unitary charge is separated between capital repayments, finance interest and a service charge element. PFI finance interest is expensed at a constant periodic rate on the outstanding balance of the liability.

Note 14. Other financial commitments

The agency has entered into non-cancellable contracts (which are not leases or PFI contracts); the most significant are in relation to the following:

- front office counter services including vehicle licensing, driver licence application checking, renewal of photo licence
- wheel clamping services.

The key payments to which the agency is committed, analysed by the date of payment are as follows:

	2015-16	2014-15
	£000	£000
Not later than one year	**26,573**	37,608
Later than one year and not later than five years (i)	**43,145**	71,768
	69,718	109,376

(i) The 2014-15 figure included a provision for end to end IT service

Note 15. Contingent liabilities

There are no contingent liabilities.

Note 16. Contingent assets

There are no contingent assets.

Note 17. Related parties

DVLA is sponsored by the Roads, Devolution and Motoring Group at DfT that also sponsors one Trading Fund, Driver and Vehicle Standards Agency (DVSA).

DfT is regarded as a related party and DVLA has a significant number of material transactions with DfT, most notably in respect of the supply funding. In addition, the agency has had a significant number of material transactions with other government departments and central government bodies. Most of these transactions have been with Department of Work and Pensions, DVSA, Home Office, HM Passport Office and Post Office.

None of the ET members or key managerial staff or other related parties has undertaken any material transactions with the agency during the year.

Note 18. Events after the reporting period

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

These financial statements are laid before the House of Commons by the DfT. International Accounting Standards (IAS) 10 requires the agency to disclose the date on which the accounts are authorised for issue. This is the date that the Comptroller and Auditor General signs the certificate.

DVLA trust statement for 2015-16

Statement of revenue and expenditure for the year ended 31 March 2016

	Note	2015-16 £m	2014-15 £m Restated(i)
Revenue			
Licence Fees and Taxes - VED	3	**5,930**	6,023
Fines and Penalties - Enforcement	4	**31**	35
HGV Road User Levy	5	**197**	186
Total Revenue and other income		**6,158**	6,244
Expenditure			
Payment to HM Revenue and Customs	6	**(3)**	-
Credit losses – amounts written off	7	**(1)**	(4)
Total Expenditure		**(4)**	(4)
Net Revenue for the Consolidated Fund		**6,154**	6.240

(i) These have been restated as described in Note 10.

There were no recognised gains or losses accounted for outside the above statement of revenue and expenditure.

Notes forming part of these accounts appear on pages 102 to 110.

Statement of financial position as at 31 March 2016

	Note	**31 March 2016 £m**	31 March 2015 £m Restated(i)
Current Assets			
Trade and other receivables	7	**96**	77
Cash and cash equivalents		**65**	95
Total Current Assets		**161**	172
Current Liabilities			
Deferred revenue	8	**(2,126)**	(2,366)
Trade payables	8	**(14)**	(6)
Total Current Liabilities		**(2,140)**	(2,372)
Total Net Liabilities		**(1,979)**	(2,200)
Represented by:			
Balance on Consolidated Fund Account as at 31 March 2016	9	**(1,979)**	(2,200)

(i) These have been restated as described in Note 10.

Notes forming part of these accounts appear on pages 102 to 110.

Oliver Morley
Accounting Officer and Chief Executive, DVLA
6 July 2016

Statement of cash flows for the year ended 31 March 2016

	2015-16 £m	2014-15 £m
Net cash flow from revenue activities	5,903	5,968
Cash paid to Consolidated Fund	(5,933)	(5,966)
(Decrease)/Increase in cash in this period	(30)	2

Notes to the statement of cash flows

Reconciliation of Net cash flow to movement in net funds

	2015-16 £m	2014-15 £m Restated(i)
Net revenue for the Consolidated Fund	6,154	6,240
(Increase)/Decrease in trade and other receivables	(19)	45
(Decrease) in trade and other payables	(232)	(317)
Net cash flow from revenue activities	5,903	5,968

Analysis of Changes in Net Funds

	2015-16 £m	2014-15 £m
(Decrease)/Increase in cash in this period	(30)	2
Net Funds as at 1 April	95	93
Net Funds as at 31 March	65	95

(i) These have been restated as described in Note 10.

Notes forming part of these accounts appear on pages 102 to 110.

Notes to the trust statement

Note 1. Statement of accounting policies

Basis of accounting

The agency prepares a trust statement ('the Statement') for the financial year ended 31 March 2016 for the revenue and other income, as directed by HM Treasury, collected by the agency as an agent for others. It is done in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ('FReM') which is in force for 2015-16.

The trust statement is prepared in accordance with the accounts direction issued by HM Treasury under Section 2 of the Exchequer and Audit Departments Act 1921. The trust statement is prepared in accordance with the accounting policies detailed below. These have been agreed between DVLA, DfT and HM Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The revenue and associated expenditure contained in these statements are those flows of funds which DVLA handles on behalf of the Consolidated Fund and where it is acting as agent rather than as principal. Although showing net liabilities because of the differences between the recognition of revenue and the payment of cash these accounts are prepared on a going concern basis.

The financial information contained in the statements and in the notes is rounded to the nearest £million.

Accounting convention

These accounts have been prepared on an accruals basis and in accordance with the historical cost convention.

General accounting policies

Revenue

VED and fines and penalties are measured in accordance with IAS 18. They are measured at the fair value of amounts received or receivable net of repayments. Revenue is recognised when:

- A taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the Exchequer. A taxable event occurs in the case of VED when it is collected from a taxpayer, as under FReM 8.2.3, the agency does not recognise income in relation to evasion. Licence fees are deemed to accrue evenly over the period for which the licence is valid. Repayments are accounted for on a cash basis and recognised in the year in which payment is made.
- A penalty is validly imposed and an obligation to pay arises.

Late Licensing Penalty (LLP) letters are issued to vehicle keepers who fail to relicense or declare Statutory off Road Notification (SORN) within 2 months of licence expiry. Fine payments are made through the DVLA Contact Centre. DVLA also employs debt collectors to recover fines not recovered directly.

Debt collection agents are issued cases monthly from DVLA to pursue further. Revenue is either recovered by agents and paid over to DVLA gross or paid directly to DVLA from customers. Commission earned by agents is invoiced to DVLA separately. The agency pays LLP income net of commission to HM Treasury as Consolidated Fund Extra Receipts under a specific arrangement. Fine income used to cover agents' commission costs is deducted at source to offset the cost to DVLA.

Continuous Insurance Enforcement (CIE) was introduced in 2011-12 when it became an offence to be the registered keeper of an uninsured vehicle. A registered vehicle must be insured at all times unless it is being kept off road and a SORN made.

Fixed penalty notices are issued to registered keepers who fail either to insure or are not CIE exempt through vehicle status or tax class. The £100 penalty notice is reduced to £50 if paid within 21 days.

Other income

The HGV Road User Levy was introduced on 1 April 2014. The Levy applies to HGVs weighing 12 tonnes or more and is aimed at ensuring these vehicles make a contribution to the wear and tear of the UK road network. UK hauliers make Levy payments in accordance with pre-existing arrangements for VED. Non-UK hauliers make Levy payments through a third party, Northgate Public Services. The role of Northgate is to administer this charge and to make pay-overs to HM Treasury, which are accounted for within the trust statement.

Business account

The following transactions are accounted for in the business account set out earlier in this document and are covered by its related accounting policies:

a) Fixed assets
b) Losses
c) Cost of collection and enforcement of VED.

Use of estimates and judgements

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 7.

Bad and doubtful debts

To give a true and fair view, it is necessary to make allowance for those VED and enforcement receivables that we believe will be unlikely to be received in the future. A provision has been estimated using analysis of historic trends in debt recovery and write-offs and is supported by management judgement.

Evasion

The costs of VED evasion are outside the scope of the trust statement.

Related party disclosure

The agency is part of DfT. It has a large number of VED transactions with both local and central government bodies; at present these are not separately identifiable by DVLA.

Deferred revenue

The deferred revenue balance relates to VED for one off payments of 6 or 12 months received in 2015-16 relating to 2016-17.

Deferred revenue is based on the data collected at source using the period of the VED licence purchased.

A proportion of the deferred revenue balance will be claimed as a refund of duty during 2016-17. The value of refunds for 2015-16 is shown in Note 3.

Note 2. Direct Debit

On 1 October 2014 the Direct Debit scheme was launched, offering motorists the option of managing VED payments due from 1 November 2014. As such, motorists have the option of either paying a one-off amount in respect of 6 or 12 months VED or alternatively, paying for 12 months' VED in monthly instalments. As at 31 March 2016, £0.9 billion (2014-15: £0.6 billion) was due in respect of VED monthly instalments to be settled in the next financial year; this balance is not recognised within the statement of financial position as these monies will not be collected should the vehicles be sold or declared off road and all the balance represents VED income to be recognised in the next financial year.

Note 3. Licence fees and taxes - VED

	2015-16 £m	2014-15 £m Restated(i)
Total Gross VED	6,287	6,239
Amounts refunded	(357)	(216)
Total	5,930	6,023

(i) These have been restated as described in Note 10

Licence fees and taxes includes £9.7million (2014-15: £5.8 million) of receipts from DfT in respect of Reduced Pollution Certificate (RPC) discounts. These receipts meet the short-fall in VED payments from UK hauliers, eligible for the RPC, following implementation of the HGV Road User Levy.

Note 4. Analysis of enforcement fines and penalties

2015-16	Vehicle Excise Duty			Continuous Insurance (CIE)	Totals
	Late Licensing Penalties (LLP)	Traditional Enforcement	Wheel clamping		
	£m	£m	£m	£m	£m
Offences in:					
2014-15	**-**	**1**	**-**	**-**	**1**
2015-16	**12**	**7**	**8**	**5**	**32**
Commission paid	**(2)**	**-**	**-**	**-**	**(2)**
Total	**10**	**8**	**8**	**5**	**31**

2014-15	Vehicle Excise Duty			Continuous Insurance (CIE)	Totals
	Late Licensing Penalties (LLP)	Traditional Enforcement	Wheel clamping		
	£m	£m	£m	£m	£m
Offences in:					
2013-14	1	1	-	-	2
2014-15	17	7	7	4	35
Commission paid	(2)	-	-	-	(2)
Total	16	8	7	4	35

LLP income collected by debt collectors is included in the LLP figures. Amounts collected by debt collectors totalled £9.8 million in 2015-16 (2014-15: £8.1 million). DVLA and HM Treasury have agreed special payment arrangements for debt collectors. Their commission is paid from the fine income that they collect and the net amount is remitted to DVLA.

Note 5. HGV Road User Levy

	2015-16	2014-15
	£m	£m
UK hauliers	148	146
Non-UK hauliers	49	40
Total	197	186

Note 6. Payments to HM Revenue and Customs – Shipbuilders' Relief

Payments to HMRC total £2.8 million (2014-15: £0.2 million).

Shipbuilders' Relief is a payment to HM Revenue and Customs (HMRC) under the Finance Act 1966, to provide assistance to the shipbuilding industry. It aims to relieve shipbuilders of VED, the duty on hydrocarbon oil and Value Added Tax incurred in the course of constructing a vessel.

On the 12 January 2004, the Economic Secretary to the Treasury confirmed the abolition, in full and with immediate effect, of the Shipbuilders' Relief. This announcement means that Shipbuilders' Relief will not be paid in respect of any contracts for vessels signed after 12 January 2004.

The DVLA has a contingent liability (which cannot be quantified at this time) with respect to contracts signed on or before that date. The DVLA will honour all claims in respect of:

- contracts signed on or before 31 December 2000 in respect of classes of vessel explicitly covered by EC Regulation 1540/98
- contracts signed on or before 12 January 2004 in respect of classes of vessel not explicitly covered by EC Regulation 1540/98.

Note 7. Trade and other receivables

	31 March 2016	31 March 2015
	£m	£m
Licence Fees and Taxes – VED	63	61
Fines and Penalties – Enforcement	15	22
HGV Road User Levy	25	2
Total before estimated impairments	103	85
Less estimated provision for impairments	(7)	(8)
Total	96	77

The Licence Fees and Taxes – VED receivable includes amounts due from the Post Office, £46 million (2014-15: £50 million).

Direct Debit defaulters who have failed to honour their mandates amounted to £7.3 million (2014-15: £0.7 million). This equates to 0.5% of total direct debit income (2014-15: 0.4%)

All debt will be due to the Consolidated Fund when realised.

Change to impairments

	2015-16	2014-15
	£m	£m
Balance as at 1 April 2015	(8)	(6)
Change in estimated value of impairments	1	(2)
Balance as at 31 March 2016	(7)	(8)

A provision is made for potential bad debts based on the value of open cases as at 31 March 2016 and historical data on recovery of VED and enforcement receivables.

Receivables in the balance sheet are reported after the deduction of the estimated value of impairments.

A provision of 2% is made for doubtful dishonoured cheque VED cases resulting in a movement of £0.1 million in 2015-16 (31 March 2015: £0.3 million). There is no provision in respect of VED enforcement.

Credit losses – amounts written off

	2015-16	2014-15
	£m	£m
VED	1	2
VED Enforcement	1	1
Change in the value of impairments	(1)	1
Total	1	4

Amounts written off in respect of VED include:

- £0.1 million for cases where the agency is unable to trace the offender (31 March 2015: £1.7 million)
- £3,000 for cases of successful prosecutions in court where the revenues were collected by the Ministry of Justice (MoJ) (31 March 2015: £0.4 million). During 2015-16 DVLA adopted a more cost effective approach to recovery, resulting in fewer court prosecutions.

Amounts written off in respect of VED Enforcement relate to waived and abandoned fines and penalties during 2015-16.

Note 8. Trade and other payables

	Trade payables 31 March 2016	Deferred Revenue 31 March 2016	Total 31 March 2016	31 March 2015
	£m	£m	£m	£m
				Restated(i)
VED	-	(2,126)	(2,126)	(2,366)
Motor trade	(4)	-	(4)	(4)
Other	(10)	-	(10)	(2)
Total	(14)	(2,126)	(2,140)	(2,372)

(i) These have been restated as described in Note 10.

Motor trade payables are where customers hold pre-payment accounts, or payments have been made but the service has not yet been provided.

Other payables include an accrued cost to HMRC for a payment of Shipbuilders' Relief of £2.8 million (2014-15: £0.2 million) and also £7 million relating to cash collected in the trust statement due to the business account (31 March 2015: £0.5 million).

There are no trade or other payables in respect of VED enforcement.

Note 9. Balance on Consolidated Fund account

	2015-16 £m	2014-15 £m Restated(i)
Balance as at 1 April	(2,200)	(2,474)
Net Revenue for the Consolidated Fund	6,154	6,240
Less amount paid to Consolidated Fund	(5,933)	(5,966)
Balance on the Consolidated Fund Account as at 31 March 2016	(1,979)	(2,200)

(i) These have been restated as described in Note 10.

Note 10. Prior year adjustment

The deferred revenue balance relates to VED for one-off payments of 6 or 12 months, for which the element of the receipts relating to future periods is deferred. During 2014-15, the direct debit payment method was launched, which included three possible methods – one 6 month payment, one 12 month payment, or 12 month VED paid for on a monthly basis over a 12 month period. Only the receipts from first two methods should have been included when calculating the deferred revenue balance, but instead all direct debit receipts, including the direct debits paid on a monthly basis, were included. This error meant that the deferred revenue balance was overstated and the VED revenue from Licence Fees and Taxes understated by £117 million.

The 2014-15 balances have been amended to exclude the direct debit monthly payments and as a result the following balances have been restated:

- Statement of revenue and expenditure Licence Fees and Taxes increased from £5,906 million to £6,023 million.
- Statement of financial position current liabilities deferred revenue reduced from £2,483 million to £2,366 million.
- As a result, total net liabilities and the Balance on Consolidated Fund have reduced from £2,317 million to £2,200 million.

In addition, while the restatement has had no impact on cash flows, the Reconciliation of net cash flow to movement in net funds with the Statement of Cash Flows has been restated as follows:

- net revenue for the Consolidated Fund increased from £6,123 million to £6,240 million
- net cash flow to movement in net funds – a decrease in trade and other payables from £200 million to £317 million.

Note 11. Events after the reporting period

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

These financial statements are laid before the House of Commons by DfT. International Accounting Standards (IAS) 10 requires the agency to disclose the date on which the accounts are authorised for issue. This is the date that the Comptroller and Auditor General signs the certificate.

Appendix A

Accounts Direction given by the Treasury in accordance with section 7 (2) of the Government Resources and Accounts Act 2000

1. This direction applies to those executive agencies listed in this appendix on page 112.

2. These executive agencies shall prepare accounts for the year ended 31 March 2016 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ('the FReM') which is in force for 2015-16.

3. The accounts shall be prepared so as to:

(a) give a true and fair view of the state of affairs as at 31 March 2016 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity and cash flows of the agency for the financial year then ended; and

(b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

Michael Sunderland
Acting Deputy Director
Government Financial Reporting
HM Treasury
18 December 2015

Application of the Accounts Direction

This Accounts Direction applies to the following executive agencies:

Name	Department
Treasury Solicitor's Department Agency	Attorney General
Insolvency Service	BIS
National Measurement Office	BIS
UK Space Agency	BIS
Planning Inspectorate	DCLG
Royal Parks	DCMS
Animal and Plant Health Agency	Defra
Centre for the Environment, Fisheries and Aquaculture Science	Defra
Rural Payments Agency	Defra
Veterinary Medicines Directorate	Defra
Standards and Testing Agency	DFE
National College for Teaching and Leadership	DFE
Education Funding Agency	DFE
Driver and Vehicle Licensing Agency	DfT
Maritime and Coastguard Agency	DfT
Vehicle Certification Agency	DfT
Wilton Park	FCO
Forest Research	Forestry Commission
Valuation Office Agency	HMRC
UK Debt Management Office	HMT
Criminal Records Bureau	HO
Her Majesty's Passport Office	HMPO
National Fraud Authority	HO
HM Courts and Tribunals Service	MOJ
National Offender Management Service	MOJ
Office of the Public Guardian	MOJ
Legal Aid Agency	MOJ
Criminal Injuries Compensation Authority	MOJ
Public Health England	DH
Defence Electronic Components Agency	MOD
Oil and Gas Agency	DECC

Accounts Direction given by HM Treasury in accordance with Section 2 of the Exchequer and Audit Departments Act 1921

1. The agency shall prepare a trust statement (‘the Statement) for the financial year ended 31 March 2016 for the revenue and other income, as directed by the Treasury, collected by the agency as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury (‘FReM’) which is in force for 2015-16.
2. The statement shall be prepared so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the agency as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
3. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. When preparing the statement, the agency shall comply with the guidance given in the FReM (Ch 8). The agency shall also agree with HM Treasury the format of the Principal Accounting Officer’s Foreword to the statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.
5. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
6. The statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
7. The trust statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General, under Section 2 of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department’s Resource Accounts for the year unless the Treasury have agreed that the trust statement may be laid at a later date.

Michael Sunderland
Acting Deputy Director
Government Financial Reporting
HM Treasury
18 December 2015

Trust statement for the year ended 31 March 2016

1. The trust statement shall include:

- Foreword by the Principal Accounting Officer
- Statement of the Principal Accounting Officer's Responsibilities
- Governance Statement
- Statement of Revenue, Other Income and Expenditure
- Statement of Financial Position
- Cash Flow Statement
- such notes as may be necessary to present a true and fair view.

2. The Notes shall include among other items:

- the accounting policies, including the policy for revenue recognition and estimation techniques and forecasting techniques together with statements explaining any significant uncertainty surrounding estimates and forecasts
- a breakdown of material items within the accounts
- any assets, including intangible assets and contingent liabilities
- summaries of losses, write-offs and remissions
- post balance sheet events
- any other notes agreed with HM Treasury and the National Audit Office.

Sponsoring Department	Income Stream	Responsible Entity
Department for Transport	Vehicle Excise Duty (VED) and VED enforcement i.e. fines and penalties	DVLA

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ISBN 978-1-4741-3333-3

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