Driver & Vehicle
Standards
Agency

Driver and Vehicle Standards Agency

Annual Report and Accounts 2016/17

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Contents

Foreword

I am delighted to present DVSA's Annual Report and Accounts for 2016-17; a year in which our people have worked tirelessly to help you stay safe on Britain's roads and deliver improved customer service.

At the start of the year, there were concerns over the length of time candidates had to wait for their practical driving test for both cars and good vehicles. Both were at unacceptably higher levels than in previous years primarily due to a substantial increase in demand. By the end of the year we had brought these levels down significantly with the monthly average waiting time for a car practical driving test at 6.0 weeks in March 2017 compared with 11.9 weeks in June 2016. Similarly, we have been very successful in reducing waiting times for goods vehicles tests – the monthly average of 5.2 weeks in May 2016 had fallen to 1.5 weeks by March 2017. I am immensely grateful to colleagues in DVSA for the tremendous effort in improving waiting times across the country.

Earlier this year we consulted on changes to the content of the practical driving test. Almost 4,000 people took part in the consultation and over 4,500 learner drivers have subsequently helped to trial the new test. The new test will be implemented from 4 December 2017.

We have invested in further improvements to the MOT system including, for example, helping garage managers with simplified processes, improving provision of information to help testers to conduct the test correctly and building an MOT Reminder service for the public. We also rolled out the new MOT training and assessment model. The MOT testing service received recognition as one of the "best agile projects" in government from the Government Digital Service (GDS).

We continued to roll out a model for delivering vocational and specialist vehicle testing where we offer a service that is available where and when our commercial customers need it; exceeding our target by ensuring 99.7% of confirmed reservations were met across the year.

Our enforcement staff also exceeded the targets for both targeted vehicle compliance checks and detecting serious defects and offences. At the same time, we commenced work on "earned recognition" which will enable us to divert resources to further target the serially non-compliant and dangerous operators, as well as reduce encounters with those operators of HGVs who can demonstrate exemplary standards of maintenance and management of their drivers.

We implemented a new vehicle operator licensing system to enable commercial operators to apply for and maintain their licences on-line. We have also made particularly good progress in preparing for the implementation of a new shared services platform due to go live in September 2017. This would not have happened without the significant contributions and diligence of many of our staff.

Alongside the delivery of our services, we have set out our view of how we will help you stay safe on Britain's roads over the next 5 years. The details of our 5-year strategy can be found at https://www.gov.uk/government/publications/dvsa-strategy-2017-to-2022. It focuses on how we will help you through a lifetime of safe driving, help you keep your vehicles safe to drive, and protect you from unsafe drivers and vehicles. We have also restructured the

Agency to ensure we have the best chance of successfully implementing our strategy. Our 2017-18 Business Plan includes commitments aligned to the first year of this strategy.

We are also very mindful of the cost of our services and constantly keep them under review. In real terms, taking your driving test is now 14% cheaper than it was in 2009 and an MOT test is now 12% lower than in 2010. In addition to delivering the transformation outlined in our strategy, we will continue to make our processes and services more efficient each year.

None of the above would be remotely possible though without the professionalism, hard work and enthusiasm of the talented people who work for DVSA. Through the year, many of our colleagues have rightly been recognised for particular achievements within their field of work, such as during the driving test, carrying out enforcement, vehicle testing, et cetera. So this year we have also produced an Annual Review to tell you the story of our staff and the difference they make to road safety in Britain. This can be found at https://www.gov.uk/dvsa.

The past 12 months have been both challenging and tremendously encouraging and I would like to thank the staff at DVSA for the important contribution they make to life in Britain. It is a privilege to work with them.

Gareth Llewellyn
DVSA Accounting Officer and Chief Executive

Performance Report

Overview

The Annual Report and Accounts set out the performance and achievements for the year for the Driver and Vehicle Standards Agency (DVSA). It should be read in conjunction with the DVSA Business Plan 2016-17, which sets out our key plans and targets. This report covers the Agency's accounting period for the year ended 31 March 2017.

This Performance Report section provides high level information about the Agency, its purpose, the key risks to the achievement of its objectives and its performance during the year. It is followed by the Accountability Report (page 17), which meets key accountability requirements to Parliament and the Financial Statements (page 41).

Introduction to DVSA

DVSA is an executive agency of the Department for Transport (DfT). This means that, on behalf of DfT, we are responsible for carrying out certain functions of Government, whilst remaining managerially separate.

Our vision is for safer drivers, safer vehicles and safer journeys for all. During the year ended 31 March 2017 we published our five year strategy, (https://www.gov.uk/government/publications/dvsa-strategy-2017-to-2022) which sets out the three key themes which will enable us to deliver our vision: helping you through a lifetime of safe driving; helping you keep your vehicle safe to drive; and protecting you from unsafe drivers and vehicles.

Our core activities are aligned with our strategy and its key themes.

These activities help you through a lifetime of safe driving:

- We carry out theory tests and driving tests for people who want to drive cars, motorcycles, lorries, buses and coaches, and specialist vehicles;
- We approve people to be driving instructors and motorcycle trainers, and make sure they provide good-quality training;
- We approve courses for qualified drivers, such as Driver Certificate of Professional Competence for lorry, bus and coach drivers, and drink-drive rehabilitation; and
- By embedding sustainability into our organisational culture, it will help us deliver our vision in a sustainable and environmentally responsible way.

We do these things to help you keep your vehicle safe to drive:

- We approve people to be MOT testers, we approve the centres they work in, we provide the MOT test recording system and the MOT history service, and we make sure that tests are performed to the right standard;
- We carry out tests on lorries, buses and coaches and trailers to make sure that they are safe to drive; and

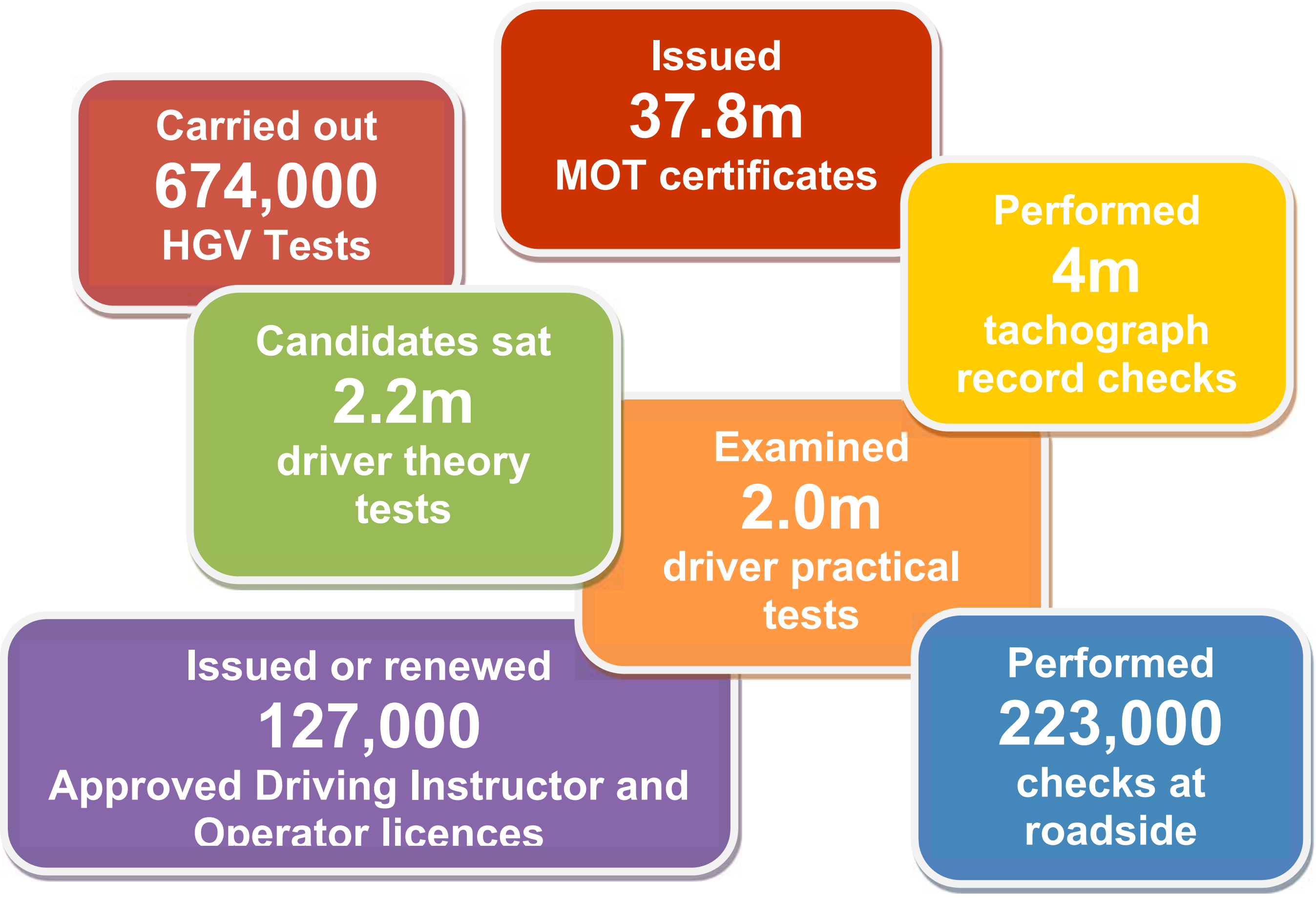
- We inspect imported, assembled or manufactured vehicles, such as amateur built cars, to make sure they are designed and built safely.

These activities help protect you from unsafe drivers and vehicles:

- We carry out checks on commercial drivers and vehicles to make sure they follow safety rules;
- We monitor recalls of vehicles, parts and accessories to make sure that manufacturers fix problems quickly; and
- We support the Traffic Commissioners for Great Britain and the Northern Ireland transport regulator to license and monitor companies who operate lorries, buses and coaches.

Performance Highlights

The scale and breadth of our key activities in the year ended 31 March 2017 are illustrated below:



Managing the delivery of our services

The services that DVSA delivers to its customers are important – even critical - to them, and to the safety of everyone on our roads. We take the management of the risks associated with delivering those services very seriously and have a process to ensure that risks and issues are addressed at the appropriate level in the Agency.

Our risk management processes and our key risks are set out in the Governance Statement on page 19.

Performance Analysis

Our key performance measures in the year ended 31 March 2017 were designed to measure the delivery of our core road safety objectives. They were set out in our 2016-17 Business Plan at the start of the accounting period, and the Agency's Board monitored performance against these measures each month during the year. Our performance during the year, including achievement against these measures is described below.

Helping you through a lifetime of safe driving

Delivering driving tests is a very important part of the Agency's business. During the year 1.8m practical driving and riding tests and 2.2m theory tests were delivered. This compares with 1.5m and 2.1m last year, respectively. Fees from these tests account for more than half of the Agency's income.

Measure	2016 -17 Objective	Outcome	
Carrying out theory tests and driving tests for people who want to drive			
Reduce the annual average waiting time for car practical tests by one week compared to 2015-16	7.4 weeks	9.0 weeks	Not achieved – see below.
Offer candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date	95%	96.7%	Achieved
Theory test candidates are satisfied with the overall level of service they've received	90%	94.0%	Achieved
Reduce the average waiting time for vocational tests (i.e. commercial vehicle driver tests) to 3 weeks	By 31 July 2016	Achieved Oct 2016	Achieved Oct 2016 (late)

Reducing waiting times

Demand for car practical tests has been increasing, leading to a significant rise in waiting times. Reducing waiting times has therefore been a priority for the Agency throughout the year. Although the challenging target to reduce the average waiting time for the whole year to 7.4 weeks was not achieved, the Agency successfully reduced the in-month average waiting time to 6.0 weeks in March 2017.

Demand for vocational driving tests also increased at the beginning of the year, leading to a significant rise in the waiting time. The Agency successfully reduced the average waiting time to 3 weeks by October 2016.

Both of the above significant improvements were achieved through a number of focused activities. In particular, through recruiting and training over 350 driving examiners during the year. The recruitment process was streamlined, and training and induction processes improved, so that the time taken for new staff to be ready to conduct driving tests was reduced. Experienced mentors were assigned to support new staff to ensure that standards were maintained.

We also arranged for practical tests to be delivered from some additional temporary sites to facilitate additional tests. Trained staff in other parts of the business helped the Agency to meet customer demand and staff worked flexibly to deliver more tests during holiday periods, including during Christmas. The reduction in waiting times was achieved without incurring significant additional costs in 2016-17.

We will continue to focus on keeping waiting times low during 2017-18.

Motorcycle training

The Agency prepared for, and issued, a consultation paper on modernising motorcycle training in December 2016. The Agency will publish its response early in 2017-18. The Agency also worked with the industry during the year to improve and increase the take up of post-test rider training.

Delegated testing

The Agency prepared for and piloted the delivery of Driver Certificate of Professional Competence (CPC) module 4 testing by delegated examiners during the year and plans to roll out this approach in 2017-18.

Improving service delivery and coverage

The Agency has developed and piloted a new approach to the car practical test to continue to reflect modern day driving, including demonstrating the ability to use a satnav while driving, and to manoeuvre in and out of parking spaces. The changes will be implemented in December 2017.

We have also increased the number of locations at which candidates can take the theory test by 28 this year.

Keeping your vehicle safe to drive

During the year the Agency conducted 964,000 vehicle tests and managed the delivery of 37,800,000 MOT tests by the motor trade. This compares with 1,014,000 and 37,200,000 last year, respectively. The MOT service is outsourced to private providers, with the Agency setting and enforcing standards and providing the necessary IT systems infrastructure. The Agency receives a small proportion of the fee charged by the provider to cover this. Fees from vehicle testing account for around a quarter of the Agency's income and fees charged to the motor trade for MOT tests account for around one sixth.

Measure	2016 -17 Objective	Outcome	
Carrying out tests on lorries, buses and coaches and trailers to make sure that they are safe to drive			
Honour DVSA confirmed reservations at Authorised Testing Facilities (ATF)	98%	99.6%	Achieved
Approving people to be MOT testers and approving the centres they work in, and making sure they test to the right standard			
To develop a strategy to improve how we tackle MOT fraud and establish a baseline for future monitoring and improvements	By 31 March 2017	Strategy developed	Achieved Subsequent measure published in 2017-18 Business Plan

Heavy Vehicle Testing

The Agency completed the rollout of testing at independent Authorised Testing Facilities (ATFs) during the year. The great majority of tests are now carried out by a network of ATFs and there is greater flexibility about the hours in which testing can be offered. The Agency is working to expand the range of tests that can be delivered at ATFs. Work to decommission and sell the Agency's own vehicle testing sites continued during the year.

The demand for heavy vehicle testing remains stable, although there is a continuing trend towards larger vehicles. Some vehicles that are currently exempt will be brought within the testing regime from May 2018. The Agency is working to ensure that these changes are implemented smoothly.

MOT Testing

The Agency has continued to improve the MOT testing system, to ensure that improvement is driven by feedback from users, and to make MOT data more widely available. In 2016-17 DVSA launched the MOT History Service. After a successful period of live running, the MOT testing system has proved to be robust with over 99% availability during the year. The service is recognised by the Government Digital Service as an exemplar across government and as a benchmark for others.

The Agency published a consultation on changing the first MOT date to 4 years in January 2017. The results of the consultation are being analysed and the Agency will publish a response in 2017-18.

As shown in Note 2 to the accounts, the Agency is now benefiting from the lower running costs of the new MOT software. The surplus will be reinvested to provide further enhancements.

A new MOT training model was launched in April 2016, where new MOT testers and managers complete an Ofqual registered qualification before they can practice. Training is now provided by independent providers. Around 2,000 testers and 1,000 managers completed qualifications during the year. The arrangements for refresher training were also changed and around 64,000 MOT testers completed their annual assessment during 2016-17.

The Agency has built and tested an initial version of an MOT reminder system for customers. This service will be launched in 2017-18.

Protecting you from unsafe drivers and vehicles

The nature and extent of this aspect of the Agency's work is agreed annually with DfT. Compliance activity is funded partly from vehicle testing fees and partly by grant from DfT.

Measure	**2016 -17 Objective**	**Outcome**	
Carrying out checks on commercial drivers and vehicles to make sure they follow safety rules			
Carry out targeted vehicle compliance checks	188,000	189,485	Achieved
Detect serious roadworthiness defects and traffic offences	20,418	23,136	Achieved

Heavy Vehicles

The Agency met its targets for vehicle compliance checks and to detect serious roadworthiness defects, as shown in the table. Three new vehicle check sites entered service during 2016-17, following significant capital investment in the sites and in modern testing facilities.

The Agency continues to target HGV non-GB vehicles for non-compliance with Road User Levy, resulting in the issue of more than 4,000 fixed penalty notices, with fines totalling more than £1.3m.

The Agency has developed the operator Earned Recognition scheme further during the year. The first operators will join a pilot in 2017-18.

Following a successful pilot in the South West, the Remote Enforcement Office (REO) concept is being rolled out nationally. REO staff conduct compliance assessments from information provided by operators, enabling the Agency to focus its resources on non-compliant operators.

Operator Licensing

The Agency completed the roll out of its Operator Licensing Compliance System (OLCS) in November 2016, following a significant capital investment. OLCS is a modern customer-focused system, enabling commercial vehicle operators to apply for and maintain their licences on-line.

Six bus operators have lost their operator licences over the last year, following investigations. Large fines have been issued in the North, Midland and Southern regions due to poor compliance.

Action on fraud

The Agency received over 500 reports of suspected impersonation and almost 400 reports of cheating at theory and practical driving tests. The Agency's own work identified around 1,900 more suspect tests. Following investigations there were around 400 arrests, 92 convictions and 269 police cautions were issued.

The Agency continues to investigate allegations of MOT fraud. Following investigations, authorisation to conduct MOT tests was withdrawn in 179 cases during the year.

Delivering for our customers

The delivery of front line services to customers is supported by staff working in many other areas, including Estates, Finance, Human Resources, IT and in our customer contact centres.

Measure	2016 -17 Objective	Outcome	
Customer Service Excellence accreditation for Customer Service Centres and for Operator Licensing	Retain	Retained	Achieved
Maintain or improve the take-up of digital services for practical test and theory test bookings	96%	98.3%	Achieved
Maintain or improve the take-up of digital services for all other digital services	93%	93.1%	Achieved
Reduce the number of customer complaints not resolved at first contact compared with 2015-16	No more than 5% escalated	5.8% escalated	Not achieved
Provide a response to Freedom of Information Act requests within 20	93%	93%	Achieved
Provide a response to Parliamentary questions (PQs) by the due date	100%	100%	Achieved
Provide a response for Ministerial correspondence within 7 working days	100%	98.9%	Not achieved - 187 out of 189 responses met the target, but two did not.
Provide a response to official correspondence (e.g. letters from MPs) within 20 working days	80%	100%	Achieved

Customer service

2016-17 saw a 26% reduction in the overall number of complaints from 15,717 last year to 11,553 this year. Although the overall number of complaints escalating to second stage reduced, the proportion increased from 5.5% last year to 5.8% this year. The Agency continues to focus on resolving all customer complaints as quickly as possible.

Information and communication technology

The Agency is continuing to modernise its information and communications technology to improve service to customers. Now that the MOT system and OLCS are in service, the Agency is focusing on improving the systems that support commercial vehicle services (CVS) and driver and rider services (DRS) and supporting compliance and enforcement staff, including support for mobile working. Preparatory work on CVS and DRS was completed in 2016-17 and work will continue in the year ahead. Work is on going to exit long term outsourced contracts with a view to moving to multiple suppliers with shorter term contracts for elements of IT requirements.

Delivering value for money

Measure	2016 -17 Objective	Outcome	
Deliver a financial surplus from performance of our activities in line with the budget for the year ended 31 March 2017	£1.3m	£30.7m	Achieved – see below
Deliver the efficiency savings from Agency running costs as agreed in the Comprehensive Spending Review 2015 (2016-17 target)	£17.4m	£22.8m	Achieved – see below
As part of our strategy to reduce our overall estate, to have marketed and/or sold cumulatively at least 51 premises	By 31 March 2017	51	Achieved
By 31 March 2017 DVSA full time equivalent staff members (FTEs) will be no more than	4,495	4,494	Achieved
Payment of invoices within 5 working days	80%	99.1%	Achieved
To reduce the average number of working days lost due to sickness	10.36 days	10.3 days	Achieved

Estates

The Agency has reviewed its administrative estate and plans are in hand to move administrative staff from private sector offices into existing public sector estate. This will deliver a significant running cost saving to the public purse. The first moves will take place in 2017-18.

Staff

The Agency has reorganised its back office functions to ensure that there is better support to front line staff delivering services to customers and to better support delivery of the five year strategy.

The Agency has taken steps to ensure that it has the right staff, with the right skills, in the right locations to deliver services to customers and meet their needs and expectations. This has involved recruiting over 350 Driving Examiners and recruiting staff into new posts following a restructuring of the delivery of front line services. At the same time, some posts are no longer needed and the Agency has run voluntary redundancy schemes during the year for staff that could not be redeployed.

The Agency has worked closely with five staff network groups this year who have offered advice and suggestions on how the Agency can become more representative of the communities we serve. These groups are Pride (gender), the Women's Integrated Network, Time 2 Care (for carers), Enabled (disability) and EmbRACE (ethnicity). An example of their effectiveness has been their support in shaping the recruitment strategy to help the Agency to recruit a more diverse workforce.

Financial performance

Total income for the year was £393.5m, in line with the budget and slightly above last year. (2015-16: £381.6m). The increase on the previous year is due mainly to the delivery of more driver practical and theory tests.

Total expenditure for the year was £362.8m, which was below budget. (2015-16: £369.6m). Expenditure is below budget because of additional efficiency savings beyond those planned, but also due to some difficulties in recruiting staff, lower than planned expenditure on some projects and lower than planned expenditure on property maintenance and property disposals because staff were working to accommodate a large number of extra Driving Examiners.

The Agency delivered £22.8m in efficiency savings – part of a larger figure agreed during the last Comprehensive Spending Review. Savings were made on the MOT service, vehicle testing, IT services and the Theory Test. The Agency exceed its savings target for the year, mainly because savings forecast to be made in future years were achieved earlier than planned.

Capital expenditure for the year was £29.0m. Of this, £22.9m was invested in intangible assets, primarily enhancements to the recently commissioned MOT software to improve customer experience, and the new operator licence system to replace outdated software and improve the service. £6.1m was invested in tangible assets, mainly on the development of three enforcement sites. More details are given in Notes 6 and 7 to the Financial Statements.

As a result, the Agency has delivered a surplus of £30.7m for the year, against a budgeted figure of £1.3m. This will be used to:

- invest in replacing customer facing systems to improve the customer experience and to move them on to modern technology systems which can be continuously improved for example, by implementing our commercial vehicle services (CVS) IT system

- improve customer facing systems to meet customer expectations, for example, by upgrading our driver and rider services (DRS) IT system, and to invest in delivering our services at a time and place which suits our customers

- rationalise and modernise our estate to support a modern service delivery model and release capital

- develop new ways of working to reduce the regulatory burden on the safest operators and to focus effort on the serially non-compliant

- fund the projects that deliver the efficiency savings that we have committed to in the 2015 Spending Review. In the medium and longer term we will use these efficiency savings to offset – as far as possible - any fee increases that may be necessary to cover the increased depreciation cost of the service

Using the surplus in these ways means that the services our customers receive will become better and we will be able to improve road safety.

Delivering sustainably

DVSA takes its environmental responsibilities seriously and we aim to operate in an environmentally responsible and sustainable way. More details about the Agency's environmental performance are in the Sustainability Report 2016-17 – see Annex B. This section summarises the key elements.

The table below shows the Agency's performance against the Greening Government Commitment targets announced in December 2016:

Measure	Greening Government Commitment	2009-10 Baseline	2016-17 Target	2016-17 Outturn	Change from baseline
Greenhouse gas emissions	By 2020, reduce total carbon emissions by 36% of 2009-10 levels (tCO2e)	15,748	10,647	9,488	40%
Greenhouse gas emissions	By 2020, reduce the number of domestic business flights by more than 30% of 2009-10 levels	2,742	1,954	1,589	42%
Water use	By 2020 reduce water use to 6m3/FTE	8.7	6.8	9.7	(11)%
Waste arising	By 2020, reduce the overall amount of waste (tonnes)	1,902	1,125	1,187	37%
Waste to landfill	By 2020, reduce waste to landfill to 10% or less	84%	78%	77%	7 percentage points
Paper	By 2020, reduce paper use by 50% of 2009-10 levels (A4 reams)	40,772	23,286	11,411	72%

The Agency's performance in reducing greenhouse gas emissions and paper use is already ahead of the 2020 target.

The Agency has not achieved the annual target to reduce water use, although consumption did reduce by 5% in 2016-17. Water consumption has been investigated at over 30 sites and the Agency continues to focus on sites that exceed benchmark water consumption. Water services are being modernised at sites where the opportunity arises and high water use is being tackled through engagement with staff and other actions.

The Agency has reduced the overall amount waste arising by 37% against the baseline year. The implementation of a new Facilities Management contract during 2017-18 is expected to improve the Agency's performance on the management of waste and recycling going forward.

Chief Executive and Accounting Officer
29 June 2017

Accountability Report

Overview

The Accountability Report consists of the:

- Corporate Governance Report
- Remuneration and Staff Report
- Parliamentary Accountability and Audit Report

The purpose of the Corporate Governance Report is to explain the composition and organisation of the Agency's governance structures and how they support the achievement of the Agency's objectives.

The Remuneration and Staff Report sets out the Agency's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors. It also provides information about staff numbers and staff remuneration, as set out in the Government Financial Reporting Manual 2016-17 (https://www.gov.uk/government/publications/government-financial-reporting-manual-2016-to-2017).

The Parliamentary Accountability and Audit Report brings together the key Parliamentary accountability documents within the annual report and accounts.

Corporate Governance Report

The Corporate Governance Report has three parts: the Directors' Report, the Statement of Accounting Officer's Responsibilities and the Governance Statement.

Directors' Report

This Directors' Report is produced to comply with the requirements of the Companies Act 2006, adjusted for the public sector context as required by the HM Treasury Financial Reporting Manual 2016-17 to report on the governance, remuneration, performance and staff issues.

Information about the directors who served on the DVSA Board in the year ended 31 March 2017 is set out in the Governance Statement.

Directors have declared that they hold no significant third party interests that may conflict with their Board duties.

There have been no incidents of loss or misuse of personal data reported to the Information Commissioner's office in the year ended 31 March 2017.

Statement of Accounting Officer's Responsibilities

DVSA is an executive agency of the Department for Transport and operates as a Trading Fund. Under Section 4(6)(a) of the Government Trading Funds Act 1973, HM Treasury has directed DVSA to prepare for each financial year, a statement of accounts ("the Accounts") in the form and on the basis set out in the accounts direction and as stipulated in Dear Accounting Officer letter DAO (GEN) 02/16.

The Accounts are prepared under International Financial Reporting Standards (IFRS) on an accruals basis and must give a true and fair view of the state of affairs of DVSA as at 31 March 2017 and of the Statement of Comprehensive Net Income, changes in taxpayers' equity, and cash flows for the financial year.

In preparing the Accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the accounts direction issued by the 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 Accounts; and
- prepare the Accounts on a going concern basis.

HM Treasury has appointed DVSA's Chief Executive as the Accounting Officer for the Agency Trading Fund. 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 DVSA's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money (https://www.gov.uk/government/publications/managing-public-money).

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 that information.

Responsibility for the annual report and accounts

The Accounting Officer has confirmed that the annual report and accounts as a whole are fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that they are fair, balanced and understandable.

Governance Statement

Accounting Officer's Introduction

DVSA was formally founded on 1 April 2014 and its Trading Fund was enacted by S.I. 2015 no.41. The Permanent Secretary of the Department for Transport (DfT) appointed me as Chief Executive for DVSA, and HM Treasury appointed me Accounting Officer for the DVSA Trading Fund effective from 1 April 2016.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and Agency assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in the Code for Corporate Governance in Central Government Departments ("the Code"), Managing Public Money and the Financial Reporting Manual.

This Governance Statement outlines the approach to delivering effective corporate governance for the Agency in the year ended 31 March 2017 and I have provided details below of any areas where the system has not operated in line with the Code.

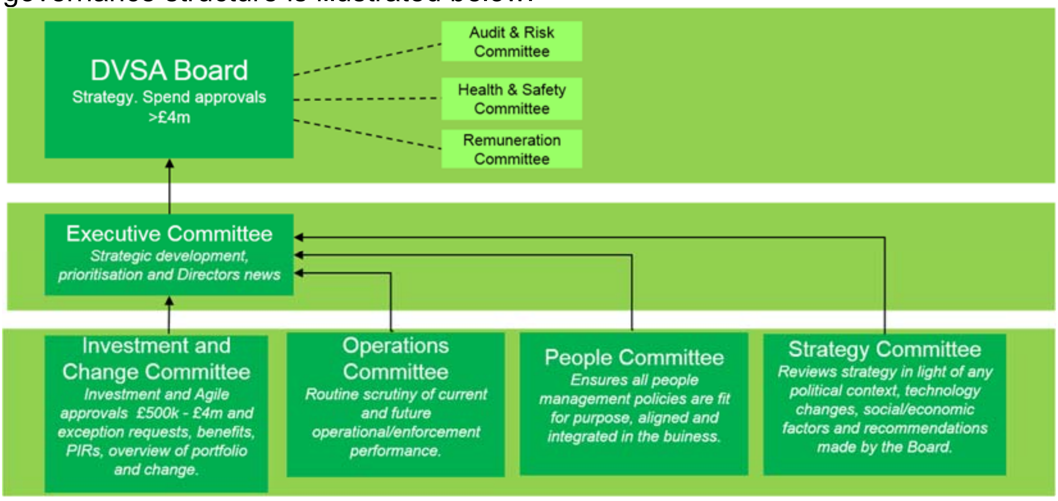
Governance Framework

DVSA follows the arrangements set out in agreement with DfT in its Framework Agreement document. This framework identifies how the Agency's corporate leadership is organised, how decisions are made, how finances are controlled and how performance and risk are monitored and managed in compliance with the Code.

DVSA's annual business plan for 2016-17 was submitted to the Minister for endorsement of the Agency's key performance measures in March 2016 and progress against the measures has been reported regularly to DfT's Director General of Roads, Devolution & Motoring via the Motoring Services Board.

Governance structure

The DVSA Board and Executive Committee manage the Agency. The DVSA Board is responsible for setting the strategic direction of the Agency and was chaired by the Chief Executive until February 2017. In March 2017 a Non-Executive Director Chair was appointed with both strategic and business oversight responsibilities. The Board is supported by the Audit and Risk Committee, also chaired by a Non-Executive Director, which has responsibility for reviewing the comprehensiveness of assurance systems and processes and advises on issues of risk control and governance. The Executive Committee is responsible for the day to day management of the Agency. The Agency's high level governance structure is illustrated below.



2016 to 2017 Board & Committee attendance

	DVSA Board Meetings attended/Eligible meetings	**Audit & Risk Committee** Meetings attended/Eligible meetings	**Health & Safety Committee** Meetings attended/Eligible meetings
Current Board members			
Bridget Rosewell – Non Executive Chair (from March 2017)	2 / 2	N/A	N/A
Gareth Llewellyn - Chief Executive Officer	11 / 11	6 / 6	2 / 2
Geraldine Terry NED - Lead Non Executive Director	11 / 11	5 / 6	N/A
Shrinivas Honap - Non Executive Director	11 / 11	6 / 6	N/A
Fiona Ross - Non Executive Director	11 / 11	6 / 6	N/A
Graham Pendlebury - DfT Nominee Non Executive Director	N/A	6 / 6	N/A
Peter Hearn - Interim Director of Operations	11 / 11	N/A	3 / 3
Adrian Long - Director of Policy & Stakeholder Management	11 / 11	N/A	1 / 1
Helen Milne – Director of Finance & Corporate Services (from October 2016)	6 / 6	2 / 2	N/A
James Munson - Director of Digital Services & Technology	11 / 11	N/A	N/A
Previous Board members			
Nick Graham - Interim Director of Finance & Corporate Services (until August 2016)	4 / 4	3/3	N/A
Kevin Kidman - Interim Director of Operations (until 5 August 2016)	3 / 3	N/A	1 / 1
Nick Longhurst – Interim Director of Finance & Corporate Services (from August 2016 to October 2016)	5 / 5	2/2	N/A
Paul Satoor – Director of Organisational Development and Strategy (until Feb 2017)	8 / 9	N/A	N/A

The Remuneration Committee did not meet during the period.

The Board and each of its subcommittees evaluates its effectiveness annually. This is led by the chair and reported to the DVSA Board.

The Non-Executive Director Chair’s principal responsibility is to chair the DVSA Board with the purpose of guiding, supporting and challenging the strategic direction of the agency. Non-Executive Directors provide external advice and expertise in association with independence of thought which informs the decision making process.

Wider Governance

The Agency is sponsored by DfT. This means that certain DfT staff have some involvement in the management and supervision of the Agency's business. Through regular attendance at the DVSA Board and the Audit and Risk Committee, for example, the DfT representatives help to ensure that sufficient priority is afforded to operational delivery, progress towards business plan objectives and the management of risk.

In addition, the Agency reports regularly to DfT on performance, on progress towards financial targets including efficiency savings, on risks and issues, and on other key activities. These reports are considered at the DfT Executive Committee and Group Audit and Risk Committee as appropriate.

Risk Management

DVSA follows the DfT Risk Management Policy and HM Treasury guidance to identify and manage risks. The DVSA Board are committed to making sure that the Agency has an appropriate risk framework so that opportunities and threats can be assessed and well managed.

In setting DVSA's risk appetite, the Board wants to improve services by optimising risk taking and accepting some calculated risks, at an appropriate level of authority. The DVSA Board's general attitude to risks affecting core customer services and information management is cautious. For risks affecting cyber security and health and safety the approach is very cautious.

For example, the Agency operates IT systems that are critical for its customers, which contain personal data and which process financial transactions. Managing the security, reliability and availability of these systems is therefore very important. Maintaining, upgrading and replacing these systems requires careful management of the associated risks.

Risk management is integral to the Agency's planning, governance and quality assurance processes. The Agency has implemented an integrated risk management process. Risks are assessed and managed using a standard reporting template. Risks are escalated as necessary from Directorate risk registers to the corporate risk register, which is reviewed by the Executive Committee and approved by the Board each month. Significant risks are escalated to DfT in order to warn, to inform or to seek guidance.

The effectiveness of the Agency's risk management 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 consistency improvements to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

The key areas of risk this year were

- Work towards the implementation of a new accounting system, delivered through a shared service arrangement. Good progress has been made to ensure that the new system will meet the Agency's needs. It is on track for implementation during the financial year ending 31 March 2018.

- Reducing the waiting time for practical driving tests. This was one of the Agency's key targets. The Agency took a wide range of actions to overcome the challenges and the waiting time had reduced to 6.0 weeks at 31 March 2017.

- Recruiting IT specialists to deliver services to customers and the Agency's change programme. The mitigating actions included the recruitment of permanent staff, including apprentices, improving the attractiveness of vacant posts and by succession planning for business critical roles.

- Changes to the tax arrangements affecting contingent labour (IR35). Following changes to tax arrangement it has become more difficult to retain contingent labour in some key areas, and in particular on certain IT projects. The new arrangements were implemented in April 2017 and the Agency was successful in mitigating the risk and minimising the impact on service delivery.

Assurance Mechanisms and Explicit Reviews

There are a number of internal control processes that provided a framework for managers and staff to successfully and efficiently deliver DVSA's objectives. The Audit and Risk Committee oversees the effectiveness of this control regime utilising assurance mappings to plan and commission independent reviews. Along with the DVSA Board and other committees, the Audit and Risk Committee reviews and challenges reports on controls and their effectiveness. The main assurance mechanisms are:

a) The Management Assurance process

The agency completes a Management Assurance review twice a year. Executive Directors complete management assurance statements to assess the effectiveness of internal controls within their Directorates.

The statements are a key part of the governance framework and the results are also reported to the DfT Group Audit Committee which considers them to be a primary source of assurance of good governance.

In the year ended 31 March 2017, this process provided evidence to DfT to support moderate or substantial assurances in all matters except for Succession Planning and Knowledge & Records Management, which scored as Limited Assurance. These areas are being addressed through an improvement plan.

b) Quality assurance

DVSA invests considerable resource into ensuring that the services it delivers to the public and industry are effective and efficient. Recruitment, induction and ongoing training of our examiners are supported by robust Quality Assurance mechanisms. Analytical quality assurance monitoring and regular assessments help maintain consistent and appropriate examination, inspection and approval standards. This year over 1,000 assessments were conducted on staff and or processes. Reports on all of these activities are fed into the Executive Committee assurance reporting process.

c) Information security procedures

DVSA's data and information handling procedures comply with statutory and regulatory requirements.

The agency seeks to comply with HMG Security Policy Framework, together with Cabinet Office's 10 Steps to Cyber Security, and Good Practice Guides now published by The National Cyber Security Centre.

DVSA complies with Cabinet Office guidance on information risk management, including Bulk Data Security guidance.

DVSA's Senior Information Risk Owner acts as the focus for information risks and is a member of the DVSA Board. A network of trained Information Asset Owners is in place to ensure that information assets are managed effectively and that appropriate risk controls are in place. All staff agree to an Acceptable Use Policy before accessing IT systems.

d) Project and portfolio assurance

The Agency has a Portfolio Assurance function to provide independent assurance across the Programmes and Projects. The function is fully engaged with the DfT Programme and Project Management Centre of Excellence in respect of advice and monitoring of processes and performance. The function tracks all recommendations from Programme and Project health checks, Gateway Reviews, and audits. It reports on progress to the Investment and Change Committee.

e) Financial management and stewardship

DVSA follows all governance and assurance processes as required by HM Treasury and is audited by the National Audit Office.

Financial delegations have been vested in the Accounting Officer by DfT. There is a robust delegated approval structure that is controlled through the procurement and financial information systems.

Budgetary controls are supported by a robust monthly planning, reporting and forecasting cycle which is overseen by the DVSA Board.

f) Health & Safety (H&S)

DVSA's CEO is the H&S Board Champion and the H&S Committee is a sub-committee of the DVSA Board.

DVSA complies with Health & Safety Executive guidance. Incidents and near misses are investigated and reported appropriately.

This year the Agency has focused on improving three key areas:

- improving H&S at Authorised Test Facilities
- reducing customer and third party aggression
- creating a single accessible central source for risk assessments and H&S documentation.

g) Staff engagement and support

The Agency supports its staff with a number of measures. The Agency participates in the annual Civil Service engagement survey, and implements an action plan based on the results.

All reported incidents of bullying and harassment are investigated. This year the Board agreed a Bullying and Harassment Action Plan covering a number of initiatives to address unacceptable behaviour.

Processes are in place to monitor, report and manage sick absence. These are designed to support staff returning to work whilst minimising instances of unacceptable sick absence.

h) Fraud and bribery and Whistleblowing processes

DVSA is committed to protecting the integrity of the driver and vehicle testing and compliance services. The Agency maintains both fraud and bribery, and whistleblowing strategies that are owned by the DVSA Board and comply with Cabinet Office and DfT guidance.

Reports are regularly submitted to the Audit and Risk Committee. All reported instances of fraud and bribery are fully investigated. As with fraud, all whistleblowing cases are appropriately reported to the Audit and Risk Committee.

The DfT Whistleblowing and Raising a Concern Policy; Principles; Practices; and Guidance is also available to all staff online.

i) Analytical assurance

DVSA follows the guidance and principles for ensuring that decisions, especially regarding investment and change, are based on appropriate information. Quality assessments adhere to the DfT guide – Strength in Numbers.

Non-Executive Directors' statement

The following statement has been provided by the Agency's Non-Executive Directors (NEDs).

"During the accounting period ended 31 March 2017, the Non-Executive Directors have been involved in both the DVSA Board and major committee discussions and decisions. Based on this exposure to the Agency, and having received management and other independent assurances, we are content that there are no material issues requiring disclosure in the annual governance statement except those indicated below.

In the view of all of the NEDs, the DVSA Board has continued to function effectively and Executive and Non-Executive Directors provide thorough discussion and challenge for each decision. In the year ended 31 March 2017 the DVSA Board appointed a number of executive directors replacing the previous interim structure. The governance structure was further bolstered by the appointment of a Non-Executive Chair in March 2017.

This financial year was characterised by a major transformation programme, which is now largely complete, allowing DVSA to streamline and integrate the systems and processes inherited from the predecessor bodies, the former Driving Standards Agency (DSA) and Vehicle and Operator Services Agency (VOSA). This is expected to deliver benefits in the coming years. There was also a significant improvement in operational performance, although not all operational targets were met.

In terms of areas of concern, we draw attention to the following:

- Whilst we accept that there has been some significant improvement in the management of capital projects there is still a clear need to implement the findings of an external review regarding the use of agile project delivery as a methodology. This includes clear definitions of what constitutes operating and capital expenditure, measurability of both technical delivery, and benefit to the ultimate customer. The financial controls require strengthening, particularly with regard to the management of vendors and payments against defined deliverables. Moreover, there needs to be better forecasting of capital allocated versus that spent.
- The Agency still has lower levels of staff engagement then desired by its Board. Given the transformational nature of the organisation, this needs to be managed to

ensure that both engagement is increased whilst the benefits of transformation are delivered.

- Recruitment, especially in the context of supporting the organisation's capital programme is a challenge, following changes to the tax arrangements for contingent labour. Whilst this is common to a number of government departments and is being somewhat mitigated at DVSA, it will continue to present a challenge.
- The Agency still operates two accounting systems and this carries some inherent risk to the completeness and accuracy of the financial statements. The Agency has taken steps to mitigate this risk until a single accounting system is implemented through the 'shared service' programme in the late 2017. Necessarily until this is done, there is an on-going risk, which includes the implementation itself.
- As a result of the decision to exit the European Union, DVSA will face challenges which are at present neither clear nor quantifiable.
- The organisation will undergo a review of its trading fund status in the year ending 31 March 2018. The outcome of this review may present further risks for management to consider.

Overall, in the NEDs' opinion, DVSA has made significant progress in improving its control environment and the functioning of its Board, but needs to address the issues set out above."

Internal audit

The following statement has been provided by the Agency's Head of Internal Audit.

"Internal Audit, operating to Public Sector Internal Audit Standards, is provided by the Government Internal Audit Agency which provides a qualified audit team to complete a programme of audits.

The audit programme for the last two years has focussed on areas of transformation and high risk which has led to a number of reports addressing the framework and control environment the organisation uses in order to manage its risks.

These programmes have identified significant changes to way the Agency manages services via contracts and, the governance and programme and project management framework in place to manage its modernisation and transition into the digital environment.

These revised control environments and frameworks will be continually tested during 2017-18, both with a series of follow-up audits in these areas and, further audits of specific contacts and projects. During 2017-18 the Agency will continue with development of MOT2 phase C and, start further major development work with commercial vehicle services (CVS) and driver and rider services (DRS).

During the year the Agency restructured its senior management and Board, particularly in the Operations area, recognising the scale and complexity of the organisation both in terms of geographical coverage and diverse range of services. The senior team now has a more balanced representation of expertise from across the organisation and, has been supplemented by other permanent appointments to senior positions. The DVSA has also appointed its first Non-Executive Chair.

Good progress has been made implementing cross organisational systems with the introduction of a Unified Messaging Platform and new End User Computing solutions. There has also been good progress on the revised Shared Service project with Go-Live expected in September 2017.

The opinion of the Head of Internal Audit on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control for 2016-17 is rated at **'Moderate'.** This means that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control."

Accounting Officer's conclusion

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I am supported by the Group Internal Audit function, the management assurance reporting of the executive managers and by comments made by the NAO and other external auditors in their management letter and other reports.

I am in agreement with the assessments of the External Auditors, the Audit & Risk Committee and Non-Executive Directors' Report and Executive Directors' Management Assurance returns as outlined in this Governance Statement: namely that DVSA operates within a moderately effective control environment albeit with some areas requiring attention and improvement.

Remuneration and Staff Report

Remuneration Report

The remuneration report is presented in accordance with Civil Service Pension EPN guidance.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Remuneration policy

The Agency has the authority to determine the terms and conditions relating to the remuneration (excluding pensions) of its own staff below Senior Civil Service grades and the payment of allowances to all staff. In practice, the agency has moved to a DfT harmonised model and has adopted the Modernised Employment Contract as agreed between the Trade Unions, DfT and HM Treasury.

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

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the directors of the agency

Remuneration (salary, benefits in kind and pensions) (audited)

Current Board members

Directors	Salary £000		Bonus £000		Pension benefits £000		Total £000	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Chief Executive								
Gareth Llewellyn (from 14/03/16)	130-135	5-10 (130-135)	-	-	50-55	0-5 (50-55)	180-185	5-10 (180-185)
Director								
Peter Hearn (from 11/07/16)	50-55 (70-75)	-	-	-	50-55 (70-75)	-	105-110 (145-150)	-
Adrian Long	105-110	100-105	-	-	35-40	35-40	145-150 (135-140)	135-140
Helen Milne (from 10/10/16)	45-50 (95-100)	-	-	-	15-20 (35-40)	-	60-65 (130-135)	-
James Munson	120-125	120-125	-	-	45-50	45-50	165-170	165-170
Non-Executive Chair								
Bridget Rosewell (from 01/03/17)	0-5 (25-30)	-	-	-	-	-	0-5 (25-30)	-
Non-Executive Directors								
Shrinivas Honap (from 01/06/15)	25-30	15-20 (20-25)	-	-	-	-	25-30	15-20 (20-25)
Fiona Ross	15-20	15-20	-	-	-	-	15-20	15-20
Geraldine Terry	20-25	10-15	-	-	-	-	20-25	10-15

Notes:

Where a member of the board served for only a part of a year, the full year equivalent (FYE) figure is also shown in brackets.

Pension benefits accrued during the year are calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increases or decreases due to pensionable rights.

No current Board members received any non-pension benefits in 2016-17 (2015-16: nil).

Adrian Long's salary for 2016-17 includes a one off payment in lieu of annual leave. Without this his salary would be between £100,000 and £105,000.

Previous Board members

Directors	Salary £000		Bonus £000		Pension benefits £000		Total £000	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Chief Executive								
Alastair Peoples (to 12/10/15)	-	65-70 (110-115)	-	-	-	10-15 (20-25)	-	75-80 (135-140)
Director								
Robert Bellis (to 30/04/15)	-	35-40 (90-95)	-	-	-	0-5 (35-40)	-	40-45 (125-130)
Rachel Campbell (from 21/09/15 to 31/03/16)	-	35-40 (60-65)	-	-	-	30-35 (55-60)	-	65-70 (120-125)
Paul Coombs (to 11/10/15)	-	45-50 (80-85)	-	-	-	10-15 (25-30)	-	60-65 (105-110)
Nicholas Graham (from 12/10/15 to 31/08/16)	65-70 (140-145)	70-75 (140-145)	-	-	-	-	65-70 (140-145)	70-75 (140-145)
Kevin Kidman (from 12/10/15 to 05/08/16)	60-65 (150-155)	80-85 (150-155)	-	-	-	-	60-65 (150-155)	80-85 (150-155)
Nick Longhurst (from 01/09/16 to 31/10/16)	10-15 (75-80)	-	-	-	5-10 (55-60)	-	20-25 (135-140)	-
Paul Satoor (to 31/01/17)	100-105 (120-125)	140-145	10-15	10-15	25-30 (30-35)	35-40	140-145 (165-170)	190-195
Non-Executive Director								
Paul Smith (to 14/06/15)	-	0-5 (10-15)	-	-	-	-	-	0-5 (10-15)

Notes:

Where a member of the board served for only a part of a year, the full year equivalent (FYE) figure is also shown in brackets.

Pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increases or decreases due to pensionable rights.

No previous Board members received any non-pension benefits in 2016-17 (2015-16: nil).

Paul Satoor's salary for 2016-17 includes second workplace reimbursement of £28,590. Salary excluding the reimbursement would be between £70,000 and £75,000 (FYE £85,000 to £90,000). The 2015-16 figure includes a second workplace reimbursement of £53,536 of which £30,222 relates to 2014-15. Salary excluding the reimbursement would be between £90,000 and £95,000. "Second workplace" is a concept introduced by HMRC and causes some necessary work-related travel costs to fall in the scope of income tax. It is the Agency's policy to reimburse through payroll employees for any incremental tax burden that results from this.

Robert Bellis' salary in 2015-16 includes £28,000 in relation to compensation for loss of office.

Kevin Kidman and Nicholas Graham were engaged on a contract basis and were not directly employed by the Agency and therefore receive no pension benefits.

Salary

Salary includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is consistent with the recording of expenditure in the accounts and is therefore based on accrued payments to the Directors.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process.

The bonuses reported in 2016-17 relate to performance in 2015-16 and the comparative bonuses reported for 2015-16 relate to the performance in 2014-15 as the decision to pay is not made until after the year end.

Fair Pay Disclosure (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and cash equivalent transfer value of pensions.

The banded remuneration of the highest paid director in DVSA in the financial year 2016-17 was £150,000 - £155,000 (2015-16: £155,000 - £160,000). This was 5.7 times (2015-16: 6.1 times) the median remuneration of the workforce, which was £26,945 (2015-16: £25,845).

In 2016-17, 4 (2015-16: 5) staff received remuneration in excess of the highest-paid director, all of which are contractors. The remuneration banding for the highest paid employee was £185,000 - £190,000 (2015-16: £195,000 - £200,000).

The median total remuneration for 2016-17 is derived from the annualised remuneration of all staff as at 31 March 2017. Part time employees' payments are adjusted to a full time basis.

The ratio has fallen primarily because of a reduction in the remuneration received by the highest paid director resulting from changes in the Board. The median salary has increased by 4% which reflects the upskilling and increased flexibility requirements expected of the workforce.

Pension benefits (audited)

Director	Accrued pension at age 65 as at 31/3/17 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31/3/17 or date of departure £000	CETV at 31/3/16 or date of departure £000	Real increase in CETV £000
Chief Executive					
Gareth Llewellyn (from 14/03/16)	0-5	2.5-5	37	2	26
Director					
Peter Hearn (from 11/07/16)	30-35 plus 90-95 lump sum	2.5-5 plus 7.5-10 lump sum	617	547	46
Adrian Long	10-15	0-2.5	152	119	23
Helen Milne (from 10/10/16)	0-5	0-2.5	11	-	8
James Munson	5-10	2.5-5	56	28	18
Previous Chief Exec					
Alastair Peoples (to 12/10/15)	-	-	-	1,105	-
Previous Directors					
Robert Bellis (to 30/04/15)	-	-	-	19	-
Rachel Campbell (from 21/09/15 to 31/03/16)	-	-	-	256	-
Paul Coombs (to 11/10/15)	-	-	-	138	-
Nick Longhurst (from 01/09/16 to 31/10/16)	25-30 plus 70-75 lump sum	0-2.5 plus 0-2.5 lump sum	487	477	6
Paul Satoor (to 31/01/17)	5-10	0-2.5	113	93	13

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 four sections:

- 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60
- 1 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 benefits shown in in the table are for 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.)

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 3.80% 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 4.60% 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 three 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 8% and 14.75% (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.)

Further details about the Civil Service pension arrangements can be found at the website www.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.

The real increase in the value of the 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.

Compensation for loss of office

No Directors left under Voluntary Exit or Voluntary Redundancy terms during 2016-17 (2015-16: 1). No compensation payments were paid (2015-16: £28,000).

Staff Report

Staff costs (audited)

An analysis of the Agency's staff costs and expenditure on consultancy is provided in Note 3 to the Financial Statements.

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 in which DVSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk/about-us/resource-accounts/).

For 2016-17, employers' contributions of £25,582,000 were payable to the PCSPS (2015-16: £24,120,000) at one of four rates in the range 20.0% to 24.5% (2015-16: 20.0% to 24.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 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 £236,000 (2015-16: £213,000) were payable to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 8.0% to 14.75% of pensionable earnings. Employers also match employee contributions up to 3.0% of pensionable earnings.

In addition, employer contributions of £8,000, 0.5% of pensionable pay (2015-16: £9,000, 0.8% of pensionable earnings up to 30 September 2015 and 0.5% thereafter), 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.

Contributions (included above) due to the partnership pension providers at the reporting period date were £20,000 (2015-16: £20,000).

12 persons (2015-16: 4 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2015-16: £nil).

DVSA operates an Early Retirement Scheme which continues to pay retirement benefits to certain qualifying employees. These benefits conform to the rules of the Civil Service Compensation Scheme. DVSA bears the cost of these benefits until the normal retirement age of the employees retired under the Early Retirement Scheme. The total pension liability up to normal retirement in respect of each employee has been charged to the Statement of Comprehensive Net Income in the year in which the employee took early retirement and a provision for the future pension payments has been created. Funds are released from that provision annually to fund pension and related benefits payments to the retired employee until normal retirement age.

DVSA recognises the cost of providing employee benefits, such as holiday pay, in the period in which the employee earns the benefit.

Employee numbers (audited)

Average numbers of persons employed	2016-17			2015-16
	Permanently employed staff No.	Others No.	Total No.	Total No.
Directly employed				
Senior Civil Service	5	-	5	6
Grade 6	19	3	22	21
Grade 7	66	9	75	68
Senior Executive Officer	188	24	212	218
Higher Executive Officer	510	16	526	548
Executive Officer	2,470	15	2,485	2,345
Administration Officer	1,013	38	1,051	1,051
Administration Assistant	67	7	74	128
Total	**4,338**	**112**	**4,450**	**4,385**

The number of persons employed are shown as the number of full-time equivalent staff employed during the year. The category “Others” includes contractors and agency staff.

Civil service and other compensation schemes (audited)

Exit Package Cost Band	Other Agreed Departures		Total by Cost Band	
	2016-17 No.	2015-16 No.	2016-17 No.	2015-16 No.
<£10,000	6	4	6	4
£10,000 - £25,000	86	2	86	2
£25,000 - £50,000	37	5	37	5
£50,000 - £100,000	16	-	16	-
£100,000 - £150,000	-	-	-	-
Total Packages	**145**	**11**	**145**	**11**
Total Cost (£000)	**3,687**	**213**	**3,687**	**213**

There have been no compulsory redundancies in 2016-17 or 2015-16.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. 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.

During the financial year 2016-17 no payments were made which were not covered by the Civil Service Compensation Scheme (2015-16: £nil).

Review of tax arrangements of public sector appointees

Off- payroll engagements for more than £220 per day and more than six months as at	31 March 2017 No.	31 March 2016 No.
Number of existing engagements	79	54
Of which:		
Number that have existed for less than one year	20	25
Number that have existed for between one and two years	29	21
Number that have existed for between two and three years	22	7
Number that have existed for three and four years	7	1
Number that have existed for four or more years	1	-

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

New off- payroll engagements, or those that reached six months duration during the financial year and are for more than £220 per day	2016-17 No.	2015-16 No.
Number of new engagements, or those that reached six months duration	20	31
Number of the above which include contractual clauses giving DfT the right to request assurance in relation to income tax and national insurance obligations	20	31
Number for whom assurance has been requested	20	31
Of which:		
Number for whom assurance has been received	16	27
Number for whom assurance has not been received	4*	4
Number that have been terminated as a result of assurance not being received	-	-

* All 4 are being treated as assured by DfT's Off-Payroll Assurance Team as they are in scope for IR35.

Board members, and/or senior officials with significant financial responsibility during the financial year	2016-17 No.	2015-16 No.
Number of off- payroll engagements	2	2
Number of board members and/or senior officials with significant financial responsibility. This figure includes both off- payroll and on- payroll engagements.	9	10

Gender equality

DVSA operates an Equality, Diversity and Inclusion Facilitation Group to help promote the diversity and inclusion agenda, acting as a sounding board on these issues. As at 31 March 2017, four of the nine members of the DVSA Board were female. Of the 89 senior managers in post, 30 were female. Of the remaining workforce as at 31 March 2017 29% were female.

Sickness absence data

The agency maintains records of sickness absence in line with Cabinet Office definitions. Further information on sickness absence is reported in the Performance Analysis.

Policy on employment of disabled persons

DVSA, as part of the civil service, is an equal opportunity employer. This means, amongst other things:

(a) giving full and fair consideration to applications for employment by the agency made by disabled persons, having regard to their particular aptitudes and abilities
(b) continuing the employment of, and for arranging appropriate training for, employees of the agency who have become disabled persons during the period when they were employed by the agency
(c) providing for the training, career development and promotion of disabled persons employed by the agency

Employee involvement

A number of actions have been taken during the financial year to introduce and improve arrangements aimed at:

(a) opening up effective two way communication with our employees on topics of interest to them – we have developed and implemented a new employee and internal communications plan that has opened up a range of new two way communications channels
(b) consulting our employees or their trade union representatives regularly to ensure their views are taken into account in our business decisions – comments on blogs, pulse surveys that seek in-depth views from staff, joint consultative committees, participation in working groups, increasing support to our staff network groups
(c) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the agency through providing information on business performance – copies of 5 year strategy issued to every member of staff, articles in staff newsletters, increased level of discussions between front line and senior staff

Parliamentary Accountability and Audit Report

Parliamentary Accountability Disclosures

This section on Parliamentary Accountability Disclosures is produced to comply with the requirements of the Companies Act 2006, adjusted for the public sector context as required by the HM Treasury Financial Reporting Manual 2016-17.

Regularity of expenditure (audited)

DVSA has complied with the regularity of expenditure requirements as set out in HM Treasury guidance.

Fees and Charges (audited)

DVSA has complied with the cost allocation and charging requirements set out in HM Treasury guidance.

DVSA is required to set fees and charges to cover the full cost of the services provided, in accordance with Managing Public Money.

During the year, DVSA recorded a gross income of £393,484,000 (2015-16: £381,588,000) and a net surplus of £30,664,000 (2015-16: £11,983,000). Of the income, £368,532,000 (2015-16: £356,373,000) was generated through fees and charges.

DVSA has approximately 1,400 fee combinations therefore individual unit costs have not been reported. Note 2 to the Financial Statements groups the fees and charges by activity and shows the surplus or (deficit) for each group. Individual fees charged by DVSA can be found at www.gov.uk.

During the year ending 31 March 2017 the Agency has supported a review of fees led by DfT.

Losses and special payments (audited)

Losses and special payments totalled £756,000 during the year (2015-16: £17,380,000).

This includes ex-gratia payments of £613,000 (2015-16: £463,000) in respect of 7,395 cases (2015-16: 5,777). These payments arise mainly from compensation paid to driving test candidates to cover out of pocket expenses when tests are cancelled by the Agency at short notice. It also includes payments made to ATF operators when the Agency did not provide a vehicle tester to fulfil a booking and payments to third parties in respect of accidental damage to vehicles in the course of vehicle testing.

There are no individual cases of losses or special payments over £300,000 (2015-16: 2 cases) which need separate disclosure as required by Managing Public Money.

Constructive losses (audited)

There have been no constructive losses in the year ending 31 March 2017.

Remote Contingent Liabilities (audited)

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50 of the Treaty on European Union. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed.

During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

Chief Executive and Accounting Officer
29 June 2017

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of Driver and Vehicle Standards Agency for the year ended 31 March 2017 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Net Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of 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 Trading Funds Act 1973. 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 Standards 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 Standards Agency's affairs as at 31 March 2017 and of its retained surplus for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; 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

6 July 2017

Financial Statements

Statement of Comprehensive Net Income
For the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Income from operations			
Income from statutory activities		378,138	364,625
Income from other operating activities		15,346	16,963
Total income from operations	2	**393,484**	**381,588**
Expenditure from operations			
Staff costs	3	(177,515)	(161,447)
Other operating charges	4	(147,679)	(160,847)
Depreciation, amortisation, impairment and profit/loss on asset disposal	6	(24,054)	(32,136)
Total expenditure from operations		**(349,248)**	**(354,430)**
Net operating surplus		**44,236**	**27,158**
Finance income		346	344
Finance costs	5	(7,620)	(10,263)
Net finance costs		**(7,274)**	**(9,919)**
Surplus for the year		**36,962**	**17,239**
Dividend payable	5	(6,298)	(5,256)
Retained surplus for the year		**30,664**	**11,983**
Other comprehensive net income			
Items that will not be recycled through the Statement of Comprehensive Net Income:			
Net gain on the revaluation of property, plant & equipment	6	4,959	7,462
Total other comprehensive net income		**4,959**	7,462
Total comprehensive net income for the year		**35,623**	**19,445**

Accounting policies and notes forming part of the Financial Statements are on pages 45 to 65.

Statement of Financial Position
As at 31 March 2017

	Note	31 March 2017 £000	31 March 2016 £000
Non-current assets			
Property, plant and equipment	6	162,762	161,091
Intangible assets	7	68,581	62,945
Total non-current assets		**231,343**	**224,036**
Current assets			
Trade and other receivables	9	18,203	15,463
Assets held for sale	8	2,256	6,806
Cash and cash equivalents	15	141,788	130,411
Total current assets		**162,247**	**152,680**
Total assets		**393,590**	**376,716**
Current liabilities			
Trade and other payables	10	(101,757)	(115,489)
Provisions	11	(5,116)	(2,613)
Total current liabilities		**(106,873)**	**(118,102)**
Total assets less current liabilities		**286,717**	**258,614**
Non-current liabilities			
Provisions	11	(7,817)	(7,494)
Other payables	10	(70,255)	(78,098)
Total non-current liabilities		**(78,072)**	**(85,592)**
Assets less liabilities		**208,645**	**173,022**
Taxpayers' equity			
Public dividend capital	SoCTE	32,458	32,458
General fund	SoCTE	115,525	78,890
Revaluation reserve	SoCTE	60,662	61,674
Total taxpayers' equity		**208,645**	**173,022**

Accounting policies and notes forming part of the Financial Statements are on pages 45 to 65.

Chief Executive and Accounting Officer
29 June 2017

Statement of Cash Flows
For the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Net operating surplus	SoCNI	44,236	27,158
Adjustments for non-cash transactions	15	22,105	30,393
(Increase) / decrease in trade and other receivables	9	(2,740)	5,685
(Decrease) / increase in trade and other payables	10	(9,595)	8,944
(Use) of provisions and unwinding discount	11	(1,678)	(2,859)
Net cash inflow from operating activities		**52,328**	**69,321**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(6,815)	(6,671)
Purchase of intangible assets	7	(25,876)	(40,538)
Proceeds of disposal of property, plant and equipment		7,151	5,176
Net cash (outflow) from investing activities		**(25,540)**	**(42,033)**
Cash flows from financing activities			
Interest received on cash balances	SoCNI	346	344
Interest payments made under finance leases	5	(5,847)	(6,000)
Repayment of loans from the Secretary of State	12	(9,159)	(30,754)
Interest payable on loan financing	5	(751)	(1,090)
Repayment of capital under PFI contract		-	(3,391)
Net financing		**(15,411)**	**(40,891)**
Net increase / (decrease) in cash and cash equivalents	15	**11,377**	**(13,603)**
Cash and cash equivalents at the beginning of the year		**130,411**	**144,014**
Cash and cash equivalents at the end of the year		**141,788**	**130,411**

Accounting policies and notes forming part of the Accounts are on pages 45 to 65.

Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2017

	Note	General Fund	Revaluation Reserve	Public Dividend Capital	Total Taxpayers' Equity
		£000	£000	£000	£000
Balance as at 1 April 2015		**64,636**	**56,483**	**32,458**	**153,577**
Changes in 2015-16					
Retained surplus for the year	SoCNI	11,983	-	-	11,983
Revaluation gains and losses	SoCNI	-	7,462	-	7,462
Transfers between reserves		2,271	(2,271)	-	-
Total		14.254	5,191	-	19,445
Balance as at 31 March 2016		**78,890**	**61,674**	**32,458**	**173,022**
Changes in 2016-17					
Retained surplus for the year	SoCNI	30,664	-	-	30,664
Revaluation gains and losses	SoCNI	-	4,959	-	4,959
Transfers between reserves		5,971	(5,971)	-	-
Total		36,635	(1,012)	-	35,623
Balance as at 31 March 2017		**115,525**	**60,662**	**32,458**	**208,645**

Accounting policies and notes forming part of the Financial Statements are on pages 45 to 65.

The revaluation reserve and public dividend capital are non-distributable.

Notes to the financial statements

Note 1 – Statement of accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adapted and interpreted by the 2016-17 Government Financial Reporting Manual (FReM) issued by HM Treasury.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the DVSA for the purpose of giving a true and fair view has been selected. These accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements.

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 March 2017, and have not been applied in these financial statements. The following new standards may affect the accounts if they are adopted by the FReM:

- 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 to 2019 FReM. It is thought that IFRS 9 will result in terminology changes only.

- IFRS 15 covers the recognition of revenues from contracts with customers. The impact on DVSA has yet to be assessed, however is not expected to be substantial, and will depend on any adaption by the FReM.

- 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 leases currently categorised as operating leases will require the full value of the asset and liability to be included in the Financial Statements. The value of the associated lease liability is currently disclosed in Note 13.

a) Basis of preparation

The financial statements have been prepared under the going concern assumption and the historical cost convention, modified for the revaluation of property, plant and equipment, in a form directed by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

b) Income recognition

DVSA levies fees and charges for the majority of its activities including:

- theory and practical driving tests;
- administering the MOT service;
- first and annual testing of heavy vehicles;
- application for operator licences and the granting of licences;
- registration of bus routes;
- managing statutory and other registers;
- approval of training bodies and courses; and
- a range of commercial activities.

The majority of income is received in advance of the delivery of services.

Income for applications for operator licences, the granting of licences and the registration of bus routes is recognised at the time of application and grant.

For all testing activities, income is recognised at the time of a test.

For all licence fees, licence continuation fees and inclusion on registers, income is released over the period of the licence based on a management assessment of usage.

Fees and charges received in advance for tests which have yet to be performed, licences with remaining terms left on the licence and other payments received in advance at the statement of financial position date are shown as deferred income within ‘Trade and other payables’.

Income for the capability to test vehicles on the MOT computerised system is recognised when testing “slots” are sold.

c) Central departmental funding

Departmental funding for projects is recognised as income to match the expenditure in accordance with IAS 20, in order to show a ‘true and fair view’. Grant amounts received relating to projects carried out for the Department which are not yet complete are deferred and included under other payables (note 10).

Central funding in the form of loans from the Secretary of State has also been provided to DVSA to support the historic investment in major estate, equipment and IT developments which could not at the time be funded from DVSA’s own resources. In accordance with IFRS, the balances of such loans that are repayable within one year are held within current liabilities and balances that are repayable after one year are included within non-current liabilities.

Interest charged on loans is expensed in line with IAS 23.

d) Value Added Tax

DVSA is not separately registered for Value Added Tax (VAT). VAT is accounted for through the Department for Transport (DfT) group registration. DVSA recovers input VAT on certain contracted out services in relation to statutory activities and under normal business rules for non-statutory (“business”) activities.

Income and expenditure are shown net of VAT and VAT is charged to the relevant expenditure category where it is irrecoverable and if appropriate, capitalised within additions to non-current assets.

DVSA charges output VAT on non-statutory services.

e) Segmental Reporting

It is not necessary for DVSA to provide segmental reporting under IFRS8 because it operates as a single agency within a single market (United Kingdom) but we provide an analysis of income and expenditure in note 2 for key activities to comply with Managing Public Money.

f) Property, plant and equipment

Valuation

Land and buildings were brought into DVSA at book value from the legacy DSA and VOSA trading funds adjusted as necessary to reflect DVSA accounting policies. These assets are revalued over a five year period with approximately one fifth of the estate being valued each year by P M Scammell, District Valuer Services, in accordance with the RICS Appraisal and Valuation Manual and the FReM.

Multi-purpose test centres and enforcement sites located near to major trunk roads in the UK are classified as specialist assets. Specialist assets are valued on a Depreciated Replacement Cost basis.

Goods vehicle test stations are held at market value as this represents the net realisable value of the asset to the organisation and continue to be depreciated until they meet the criterion to transfer to “held for sale”. See critical accounting judgements and estimates – Note 1p.

Surpluses on revaluation are taken to the revaluation reserve, or where a previous diminution in value was charged to the Statement of Comprehensive Net Income, the surplus is released to the Statement of Comprehensive Net Income to the value of the previous diminution. Any further surplus is taken to the revaluation reserve. Diminutions in value are initially charged against previous revaluation surpluses on such assets with any remaining diminution in value being charged directly to the Statement of Comprehensive Net Income. When an asset’s carrying amount decreases as a result of a permanent diminution in the value of the asset due to a clear consumption of economic benefit or service potential, the decrease is charged directly to Statement of Comprehensive Net Income.

All other tangible assets (plant and equipment, vehicles and IT hardware) are revalued annually using indices published by the Office for National Statistics. Indexation is first applied in the year following acquisition.

Intangible assets are held at depreciated cost.

Title to Properties

Legal title to freehold land and buildings is held in the name of the Secretary of State for Transport. The control and management is vested in DVSA as if legal transfer has been effected.

Capitalisation

The minimum level for capitalisation as a non-current asset is £2,000 for individual assets. Items of a lower value can be capitalised where these form part of a larger group of assets or a specific project.

g) Assets under construction

DVSA capitalises the value of assets under construction at cost plus costs directly attributable to bringing the asset into its current condition. All assets that have not been commissioned during the year but which are still in the course of construction at year-end are classified accordingly at year-end.

h) Intangible assets

Intangible assets consist of software licences and IT system developments.

Expenditure on IT systems development is capitalised if it is probable that it will generate future economic benefits. Expenditure capitalised includes project management, bought in services and the payroll costs of permanent staff working directly on the developments. General overhead is not included. Systems under development are shown as Assets Under Construction until they become operational and are subject to an annual impairment review.

i) Depreciation and amortisation

Depreciation is charged on a straight line basis from the month that the asset is brought in to use. Assets under construction are not depreciated until brought into use. The asset categories and estimated useful lives are as follows:

Land and buildings:	
Freehold buildings	10 - 60 years
Freehold land	not depreciated

Leasehold property and leasehold improvements are fully written down over the term of the lease with the exception of the Chadderton enforcement site where the lease is 999 years and the leasehold property is written down over 60 years.

Other assets:	
Plant and machinery	5 - 10 years
Transport equipment	2 - 10 years
IT equipment	3 - 10 years
IT system developments and software	2 - 10 years

j) Assets held for sale

Assets held for sale comprise properties, plant and equipment that are no longer in operational use. They are available for immediate sale in their present condition and are being actively marketed. The assets are reclassified from non-current to current assets at fair value. Assets held for sale are not depreciated.

k) Leasing

A lease is an agreement whereby the lessor conveys the right to use an asset for an agreed period in return for payments. At their inception, leases are classified as operating or finance leases. If a lease conveys substantially all the risks and rewards of ownership to the lessee (such as transfer of title, the lease term covering the major part of the asset's life, or the lease payments are substantially all of the fair value of the leased asset), it is classified as a finance lease. Otherwise, it is classified as an operating lease. Where a lease covers the right to use both land and buildings, the risks and rewards of the land and buildings are considered separately. Land is assumed to be held under an operating lease unless the title transfers to DVSA at the end of the lease.

The interest and service charge element of the rental obligations is charged to the Statement of Comprehensive Net Income over the period of the lease.

Arrangements whose fulfilment is dependent on the use of a specific asset or which convey a right to use an asset, are assessed at their inception to determine if they contain a lease. If an arrangement is found to contain a lease, that lease is then classified as an operating or finance lease.

Assets held under finance leases are capitalised at the present value of the minimum lease payments at the start of the lease, with an equivalent liability categorised as appropriate under liabilities due within and after more than one year.

Operating lease rentals (incentives) are charged (credited) to the Statement of Comprehensive Net Income on a straight line basis over the lease term.

l) Cash and cash equivalents

Cash is held within a current account with the Government Banking Service. Cash not required for short-term operational needs is deposited with National Loans Fund. The agency does not have any bank overdrafts.

m) 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. The agency has considered the requirements of the relevant accounting standards (IAS 32 and IAS 39) and has disclosed at note 16 the information it is required to report.

The carrying values of the agency's financial assets and liabilities at 31 March 2017 are considered to represent fair value. This is due to the short term nature of the financial instruments held.

The agency does not account for any fixed rate financial assets and liabilities at fair value through the statement of comprehensive net income, and the agency does not designate derivatives as hedging instruments under fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the surplus position.

Trade and other receivables are recognised initially at the original invoiced amount. Subsequent to initial recognition, they are shown at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables are recognised initially at original invoiced amount at the time the amount becomes payable under the contract.

n) Provisions

Provisions have been established under the criteria of IAS 37 and are realistic and prudent estimates of the expenditure required to settle present legal or constructive obligations that exist at the year end. The Treasury discount rate (0.24% for pensions, minus 2.70% for all other short term provisions – less than five years and minus 1.95% for all medium-term provisions – between five and ten years) is applied to take account of the time value of money where significant cash flows are expected to arise beyond the next financial period.

o) Contingent liabilities

Contingent liabilities have been assessed under the IAS 37 criteria as the possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly in control of the agency; or a present obligation that arises from past events but is not recognised because either:

- it is not probable that an outflow of resource embodying economic benefits will be required to settle the obligation or
- the amount of the obligation cannot be measured with sufficient reliability

p) Critical accounting judgements and estimates

The preparation of these financial statements requires management to make judgements and estimates that affect the amounts reported for assets and liabilities as at the date of the Statement of Financial Position, and the amounts reported as income and expenditure during the year. Owing to the nature of these estimates, the actual outcome may differ from these estimates. Areas which the DVSA believes require the most critical accounting judgments and estimates are:

- Provision for liabilities and charges
- Impairment
- Asset valuations, asset lives and surplus properties (including assets held for sale)
- Apportionment of costs to statutory activities

Provision for liabilities and charges

Provisions have been established under the criteria of IAS 37 and are based on realistic and prudent estimates of the net present value of the estimated future expenditure required to settle present legal or constructive obligations that exist at the year end in respect of cases such as certain restructuring programmes, lease obligations, contractual obligations, personal injury, discrimination and unfair dismissal. A HM Treasury discount factor is applied to recognise the time value of money and is unwound over the life of the provision.

Impairment

The FReM applies IAS 36 to ensure that assets are carried at no more than their recoverable amount – the amount to be recovered through use or sale of the asset. A review of intangible assets under construction is undertaken annually to determine if an asset meets the impairment criteria when the asset value is restated to the underlying recoverable amount.

This is done by scrutinising capital expenditure for costs that are judged to not contribute sufficiently to the final asset (specific impairment), and by a general review of the estimated forecast costs versus estimated benefits of the asset (known as a general impairment).

Other assets are considered for impairment if and when there is an indication that such a review is required.

Valuations

Property, plant and equipment represent a significant proportion of the total assets of the agency. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to DVSA's financial position and performance.

Management uses the advice of independent professional advisers to value the property estate in line with the policy stated at 1f) above. Other tangible assets are valued using indices. Management confirm annually that the indices used remain appropriate. Where there is no market based evidence of fair value, due to the specialised nature of the asset, such as multipurpose test centres, the agency uses the depreciated replacement cost method.

The Agency's intangible assets do not have an active market and are valued at historic cost net of any impairments as a proxy for depreciated replacement cost.

Asset lives

The useful lives and residual values of assets are determined by management at the time the asset is acquired and reviewed regularly for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life.

Surplus properties

These are valued in accordance with IFRS13. In particular, all goods vehicle test stations are judged to be surplus and held at a market value.

Assets held for sale

Assets held for sale are held at market value based on the latest Valuation Office Agency advice or more recent market information.

Apportionment of costs to statutory activities

Note 2 to the financial statements shows the income and expenditure relating to statutory activities. Management reviews its activities to ensure that the Agency achieves a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities.

A number of assumptions are used in applying costs to income generating activities. Direct costs can be more accurately attributed to activities. However, with overheads, several different apportionments are applied to overhead cost based on management's best estimate of the driver of costs. Examples of cost drivers used by DVSA include throughput of tests, examiner utilisation and length of tests.

q) Graduated fixed penalties deposit collection

DVSA collects fixed penalties and bus fines on behalf of HM Treasury for vehicle related offences and bus services operator offences. Amounts collected are paid to HM Treasury. The transactions related to this activity do not form part of DVSA's accounts. A memorandum of activity can be found in note 21 and is prepared in accordance with the accounting policies used by DVSA.

Note 2 – Income and surplus/ (deficit) on activities

The following information is produced for management purposes and does not constitute segmental reporting under IFRS 8 – Operating segments.

Activity	2016-17			2015-16		
	Income	Expenditure	Surplus/ (deficit)	Income	Expenditure	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Driver services	207,408	195,870	**11,538**	195,081	185,382	**9,699**
Vehicle services	107,234	109,843	**(2,609)**	108,502	120,127	**(11,625)**
MOT service	61,292	33,499	**27,793**	61,302	49,024	**12,278**
Licensing services	13,278	19,876	**(6,598)**	13,013	12,408	**605**
Other services	4,272	3,732	**540**	3,690	2,664	**1,026**
Total	**393,484**	**362,820**	**30,664**	**381,588**	**369,605**	**11,983**

The Agency takes a long-term financial view to ensure that income is matched with expenditure as investment in its services continues. Fees and charges will therefore be kept at levels which enable the Agency to be financially self-sufficient over the long-term.

Driver services include practical and theory tests and related standards, accreditation and compliance activities. Income and expenditure have increased as a consequence of the actions taken to reduce practical test waiting times in 2016-17. Allowing for one off income and costs, performance across this service has remained fairly stable.

Vehicle services include vehicle testing and compliance activities. The deficit on this service has fallen mainly due to the reduced impact of one off impairments and costs in 2015-16 associated with the rationalisation of the vehicle testing estate. Excluding these, performance for Vehicle services over the two years is broadly consistent.

Income from the MOT service has remained steady; however expenditure in the current year has reduced following the implementation of new IT software in 2015-16. The Agency plans to reinvest the surplus in further service improvements (see below).

Licensing services' costs have increased in line with the introduction of a new and improved digital operator licensing system during the current year.

Other services comprise publications and training activities, together with projects that are fully funded by DfT. Income and expenditure is consistent across both years.

Note 3 – Staff costs

	2016-17			2015-16
	Permanently employed staff	**Others**	**Total**	**Total**
	£000	**£000**	**£000**	**£000**
Wages and salaries	126,319	9,527	135,846	134,001
Social security costs	12,352	-	12,352	9,052
Pension costs	25,826	-	25,826	24,342
Staff costs incurred under restructuring	5,443	-	5,443	-
Total costs	**169,940**	**9,527**	**179,467**	**167,395**
Less recoveries in respect of outward secondments	(91)	-	(91)	(73)
Less capitalised costs	(257)	(1,604)	(1,861)	(5,875)
Total net staff costs	**169,592**	**7,923**	**177,515**	**161,447**

Other staff costs consist of contractors and temporary staff. In addition, £140,000 (2015-16: £274,000) was spent on consultancy.

Note 4 – Other operating charges

	2016-17	2015-16
	£000	**£000**
Theory test	32,771	41,827
Information technology	30,810	27,137
Accommodation costs	24,904	22,814
MOT	10,755	19,960
Rentals under operating leases	10,516	10,778
Travel and subsistence	9,905	10,123
Contracted services	7,232	7,345
Auditors' remuneration and expenses	109	105
Other	20,677	20,758
Total other operating charges	**147,679**	**160,847**

Details of the non-cash items relating to non-current assets can be found in note 6 and non-cash items related to provisions can be found in note 11.

Note 5 – Finance costs

	2016-17	2015-16
	£000	£000
Interest charges on loans from the Secretary of State	751	1,090
Interest charges on finance leases	6,714	9,076
Interest charges on imputed finance lease element of on-balance sheet PFI contracts	-	48
Unwinding discount on provisions	155	49
Total finance costs	**7,620**	**10,263**

Dividend payable	**2016-17**	**2015-16**
	£000	£000
Capital employed at the start of the period	187,602	175,044
Capital employed at the end of the period	215,213	187,602
Average capital employed	201,407	181,323
Target return on capital employed of 3.5%	7,049	6,346
Less interest payable on loans from DfT	(751)	(1,090)
Total dividend payable to DfT	**6,298**	**5,256**

The Secretary of State for Transport has determined financial objectives for DVSA. These were confirmed by Treasury Minute dated 31 March 2017 the text of which is reproduced at Annex A. Financial objectives:-

i) managing the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to the Statement of Comprehensive Net Income; and
ii) to achieve an average annual return on capital employed (ROCE) on its activities of at least 3.5% of net assets employed over the period 1 April 2015 to 31 March 2020.

The actual ROCE for the year ended 31 March 2017 was 21.5%, exceeding the target of at least 3.5% for the period.

The target return on capital of 3.5% is paid through a combination of interest and dividend. Total interest is below the return needed to meet the target and as a result DVSA will pay a dividend of £6.3m to DfT (2015-16: £5.3m).

Return on capital employed (ROCE)	**Notes**	**2016-17**	**2015-16**
		£000	£000
Surplus for the year	SoCNI	36,962	17,239
Adjustment for interest charges on loans from the Secretary of State	5	751	1,090
Adjustment for asset impairment and write-off	7	7,460	16,130
Adjustment for (profit)/ loss on asset disposal	7	(1,080)	(940)
Surplus on ordinary activities		44,093	33,519
Average capital employed		201,407	181,323
Return on capital employed		**21.9%**	**18.5%**

For the purpose of calculating dividend and ROCE, capital employed is calculated in accordance with the definition provided in the Treasury Minute (see Annex A).

Note 6 – Property, plant and equipment

2016-2017	Land	Buildings	IT Equipment	Plant and Machinery	Transport Equipment	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2016	34,760	139,425	11,054	9,232	9,793	4,934	209,198
Additions	-	189	58	5	246	5,566	6,064
Disposals	(18)	(767)	(2,084)	(641)	(3,322)	-	(6,832)
Impairments	-	(159)	-	-	-	(63)	(222)
Reclassifications	421	2,858	3,069	96	343	(7,304)	(517)
Revaluations	1,686	(2,483)	473	224	179	-	79
At 31 March 2017	**36,849**	**139,063**	**12,570**	**8,916**	**7,239**	**3,133**	**207,770**
Depreciation							
At 1 April 2016	-	20,384	10,203	8,905	8,615	-	48,107
Charge for the year	-	6,096	1,053	98	863	-	8,110
Disposals	-	(289)	(2,083)	(620)	(3,209)	-	(6,201)
Impairments	-	(23)	-	-	-	-	(23)
Reclassifications	-	59	-	-	-	-	59
Revaluations	-	(5,834)	424	216	150	-	(5,044)
At 31 March 2017	**-**	**20,393**	**9,597**	**8,599**	**6,419**	**-**	**45,008**
Carrying value							
At 1 April 2016	34,760	119,041	851	327	1,178	4,934	161,091
At 31 March 2017	**36,849**	**118,670**	**2,973**	**317**	**820**	**3,133**	**162,762**
Asset financing							
Owned assets	36,849	50,096	2,973	317	820	3,133	94,188
Enhancements to lease property	-	25,373	-	-	-	-	25,373
Finance leased assets	-	43,201	-	-	-	-	43,201
At 31 March 2017	**36,849**	**118,670**	**2,973**	**317**	**820**	**3,133**	**162,762**

Properties are valued in accordance with the policy outlined in Note 1(f). Of the total value of land and buildings, 57% relates to specialist assets which are held at depreciated replacement cost, 17% relates to non-specialist assets which are held at existing use value, and 26% relates to surplus, which are held at market value.

Finance leased assets comprise multi-purpose test centres procured under finance leases and capitalised expenditure for works on properties held under operating leases.

As a result of revaluations, assets (including assets held for sale) were revalued and impaired downwards by £1,826,000 (net) (2015-16: £7,684,000)). Of this £6,785,000 (2015-16: £15,146,000) was charged to the Statement of Comprehensive Net Income operating costs and £4,959,000 (2015-16: £7,462,000) was taken to other comprehensive net income.

The revaluation reserve shown within the Statement of Changes in Taxpayers' Equity has a closing balance of £60,662,000 (2015-16: £61,674,000) of which £60,656,000 (2015-16: £61,622,000) is property, plant and equipment (including property, plant and equipment held for sale) with the remainder being intangible assets. This represents the net book value of assets revalued above their historic net book value.

The additions in 2016-17 includes £920,000 (2015-16: £1,671,000) in relation to capital accruals.

2015-2016	Land	Buildings	IT Equipment	Plant and Machinery	Transport Equipment	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2015	36,172	137,985	10,745	14,026	9,898	1,297	210,123
Additions	-	-	(6)	20	-	6,657	6,671
Disposals	10	(304)	(76)	(4,961)	(167)	-	(5,498)
Impairments	(110)	(3,007)	-	-	-	-	(3,117)
Reclassifications	(2,274)	(324)	241	72	53	(3,020)	(5,252)
Revaluations	962	5,075	150	75	9	-	6,271
At 31 March 2016	**34,760**	**139,425**	**11,054**	**9,232**	**9,793**	**4,934**	**209,198**
Depreciation							
At 1 April 2015	-	14,781	9,628	12,836	7,665	-	44,910
Charge for the year	-	6,660	514	381	1,110	-	8,665
Disposals	-	(191)	(75)	(4,384)	(167)	-	(4,817)
Impairments	-	(260)	-	-	-	-	(260)
Reclassifications	-	(101)	3	-	-	-	(98)
Revaluations	-	(505)	133	72	7	-	(293)
At 31 March 2016	**-**	**20,384**	**10,203**	**8,905**	**8,615**	**-**	**48,107**
Carrying value							
At 1 April 2015	36,172	123,204	1,117	1,190	2,233	1,297	165,213
At 31 March 2016	**34,760**	**119,041**	**851**	**327**	**1,178**	**4,934**	**161,091**
Asset financing							
Owned assets	34,760	50,194	851	327	1,178	4,934	92,244
Enhancements to lease property	-	25,399	-	-	-	-	25,399
Finance leased assets	-	43,448	-	-	-	-	43,448
At 31 March 2016	**34,760**	**119,041**	**851**	**327**	**1,178**	**4,934**	**161,091**

Analysis of depreciation, amortisation and impairment line in Statement of Comprehensive Net Income	**Notes**	**2016-17 £000**	**2015-16 £000**
Depreciation of property, plant and equipment	6	8,110	8,665
Amortisation of intangible assets	7	10,129	9,162
(Profit) / loss on disposal of assets		(970)	(837)
Net impairment of non-current assets	6&7	7,350	16,027
Revaluation of property plant and equipment not taken to the revaluation reserve		(565)	(881)
		24,054	**32,136**

Note 7 – Intangible assets

2016-17	IT Software	Assets Under Construction	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2016	154,266	23,867	178,133
Additions	-	22,939	22,939
Disposals	(69,843)	(6)	(69,849)
Impairments	(5,300)	(1,858)	(7,158)
Reclassifications	41,695	(41,695)	-
At 31 March 2017	**120,818**	**3,247**	**124,065**
Amortisation			
At 1 April 2016	115,188	-	115,188
Charge for the year	10,129	-	10,129
Disposals	(69,826)	-	(69,826)
Impairments	(7)	-	(7)
Reclassifications	-	-	-
At 31 March 2017	**55,484**	**-**	**55,484**
Carrying value			
At 1 April 2016	39,078	23,867	62,945
At 31 March 2017	**65,334**	**3,247**	**68,581**

All intangible assets are owned.

DVSA conducts an annual impairment review of intangible assets to ensure that their carrying value is no more than their recoverable amount. The review identified several such elements of the IT programme due to either changes in business requirements, or revisions to systems architecture consequential to an agile software environment.

Intangible assets were therefore impaired by £7,158,000 (2015-16: £13,392,000) during the year. This was taken to the Statement of Comprehensive Net Income.

The additions in 2016-17 includes £2,771,000 (2015-16: £5,708,000) in relation to capital accruals.

Analysis of IT Software:	Remaining Life At 31 March 2017	Net Book Value At 31 March 2017
	£000	£000
MOT system	8 years	45,184
Vehicle Operator Licensing System	9 years	9,641
Other in use systems	Up to 9 years	10,509
Other – assets under construction	n/a	3,247
Total		**68,581**

2015-16	IT Software	Assets Under Construction	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2015	118,345	34,542	152,887
Additions	170	40,368	40,538
Disposals	(1,857)	-	(1,857)
Impairments	(4,774)	(8,618)	(13,392)
Reclassifications	42,382	(42,425)	(43)
Revaluations	-	-	-
At 31 March 2016	**154,266**	**23,867**	**178,133**
Amortisation			
At 1 April 2015	107,876	-	107,876
Charge for the year	9,162	-	9,162
Disposals	(1,847)	-	(1,847)
Impairments	-	-	-
Reclassifications	(3)	-	(3)
Revaluations	-	-	-
At 31 March 2016	**115,188**	**-**	**115,188**
Carrying value			
At 1 April 2015	10,469	34,542	45,011
At 31 March 2016	**39,078**	**23,867**	**62,945**

All intangible assets are owned.

Analysis of IT Software:	Remaining Life At 31 March 2016 £000	Net Book Value At 31 March 2016 £000
MOT system	9 years	37,348
Other in use systems	Up to 9 years	1,730
Operator Licence Compliance System	AUC	9,325
Other – assets under construction	n/a	14,542
Total		**62,945**

Note 8 – Assets held for sale

	2016-17	2015-16
	£000	£000
At 1 April 2016	6,806	3,259
Disposals of assets	(5,527)	(3,647)
Transferred in year as assets held for resale	576	5,193
Revaluations	401	2,001
At 31 March 2017	**2,256**	**6,806**

Sale of assets resulted in cash receipts of £7,151,000 (2015-16: £5,176,000). These were used to fund early repayment of loans from Secretary of State.

Note 9 – Trade and other receivables

Amounts due within one year	31 March 2017 £000	31 March 2016 £000
Trade receivables	4,793	7,002
Interest receivable	8	18
Recoverable VAT	5,209	4,290
Prepayments and accrued income	6,338	3,964
Other receivables	1,855	189
Total	**18,203**	**15,463**

There are no amounts due after more than one year.

The increase in trade and other receivables during the year is £2,740,000 (2015-16: £5,685,000).

Note 10 – Trade and other payables

Amounts falling due within one year	31 March 2017 £000	31 March 2016 £000
Trade payables	1,587	1,642
Other payables	6,013	5,361
Fees in advance	9,900	10,411
Accruals and deferred income	69,345	79,462
Deferred income - grant funding from DfT	7,590	10,359
Current part of finance leases	6,018	5,803
Current instalment on Secretary of State loans (see note 12)	1,304	2,451
Total	**101,757**	**115,489**

Amounts falling due after more than one year	31 March 2017 £000	31 March 2016 £000
Other payables	277	342
Deferred income	14,049	14,467
Finance leases	49,361	48,709
Future instalments on Secretary of State loans (see note 12)	6,568	14,580
Total	**70,255**	**78,098**

Note 11 – Provisions

2016-17	Early Departure £000	Lease Obligations £000	Dilapidations £000	Legal claims £000	Restructuring £000	Total £000
At 1 April 2016	1,429	6,070	2,089	519	-	10,107
Provided in the year	923	2,120	596	624	1,756	6,019
Provisions not required written back	(3)	(558)	(935)	(19)	-	(1,515)
Provision utilised in year	(729)	(596)	(31)	(477)	-	(1,833)
Borrowing costs (unwinding of discount)	14	157	(16)	-	-	155
At 31 March 2017	**1,634**	**7,193**	**1,703**	**647**	**1,756**	**12,933**
– Not later than one year	654	671	1,388	647	1,756	5,116
– Later than one year and not later than five years	980	2,830	315	-	-	4,125
– Later than five years	-	3,692	-	-	-	3,692
Total greater than one year	980	6,522	315	-	-	7,817
At 31 March 2017	**1,634**	**7,193**	**1,703**	**647**	**1,756**	**12,933**

2015-16	Early Departure £000	Lease Obligations £000	Dilapidations £000	Legal claims £000	Total £000
At 1 April 2015	2,606	5,130	887	781	9,404
Provided in the year	351	5,250	2,487	184	8,272
Provisions not required written back	(225)	(4,036)	(298)	(151)	(4,710)
Provision utilised in year	(1,319)	(307)	(987)	(295)	(2,908)
Borrowing costs (unwinding of discount)	16	33	-	-	49
At 31 March 2016	**1,429**	**6,070**	**2,089**	**519**	**10,107**
– Not later than one year	743	733	618	519	2,613
– Later than one year and not later than five years	686	2,414	1,471	-	4,571
– Later than five years	-	2,923	-	-	2,923
Total greater than one year	686	5,337	1,471	-	7,494
At 31 March 2016	**1,429**	**6,070**	**2,089**	**519**	**10,107**

Use of provision and unwinding of discount during the year is £1,678,000 (2015-16: £2,859,000)

Early Departure

The provision covers the cost of staff leaving under voluntary early retirement arrangements and is created when the arrangement is agreed. Costs include lump sum pension payments and the total pension liability up to normal retirement age. Amounts are released from this provision annually until normal retirement age.

Lease Obligations

This relates to property leases and reflects the crystallisation of future obligations for properties that are considered surplus and we do not expect to be able to sub-let or revoke the lease. The provision also includes an estimate of potential increases to leases charges which may materialise following contract negotiation and where the increased charge may be backdated to the start of the new lease period.

Dilapidations

This is based on an assessment of the likely cost of rectifying dilapidations under lease terms. Many of these obligations will not arise for a number of years. In making these assessments, DVSA has applied a risk based approach on a property-by-property basis looking forward for the next three years. Any dilapidations likely to be payable after three years are difficult to pred reliably and are, therefore, excluded from the provision.

Legal claims

This is an estimate of the expenditure arising from all the legal claims against the agency which are expected to materialise following due legal process. It comprises of mainly personal injury claims against the Agency.

Restructuring

This relates to the business transformation that took place during 2016-17. The provision covers the constructive liability that has accrued to the Agency as a result of this restructure. It primarily covers the cost of a Voluntary Redundancy scheme.

Note 12 – Loans from the Secretary of State

DVSA has received loans from the Department for Transport (DfT) which are repayable by instalments and bear interest. The following fixed interest loans are outstanding at the year end:

	31 March 2017 £000	31 March 2016 £000
Loan issued in 2006-07 15 year repayment at 5.15% interest	-	4,838
Loan issued in 2007-08 15 year repayment at 4.54% interest	7,352	11,500
Loan issued in 2009-10 10 year repayment at 3.0% interest	520	693
Total Loans	**7,872**	**17,031**

	31 March 2017 £000	31 March 2016 £000
Amounts repayable:		
– Current loan instalment (see note 10)	1,304	2,451
– In one to two years	1,304	2,451
– In two to five years	3,567	7,179
– After five years	1,697	4,950
Amounts due after more than one year (see note 10)	6,568	14,580
Total Loans	**7,872**	**17,031**

Loans repayments made in the year were £9,159,000 (2015-16: £30,754,000).

Note 13 – Commitments under leases

Operating leases	31 March 2017			31 March 2016		
	Land and Buildings	Other	Total	Land and Buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Minimum lease payments						
- Not later than one year	8,475	1,497	**9,972**	8,022	1,283	**9,305**
- Later than one year and not later than five years	22,340	1,127	**23,467**	25,701	1,321	**27,022**
- Later than five years	105,319	-	**105,319**	119,793	-	**119,793**
Total	**136,134**	**2,624**	**138,758**	**153,516**	**2,604**	**156,120**

Operating leases relate to all payments due under commercial leases and intra-government agreements. Commercial lease arrangements for land and buildings are normally on standard terms and conditions typically over 10 to 15 years with rent reviews and break clauses every five years. Operating leases also include the land element of leases for multi-purpose test centres (see finance lease comments below).

Other lease arrangements are predominantly commercially leased vehicles on standard terms and conditions over a four year period with no transfer of ownership at the end of the period.

	Buildings	
Payments under finance leases	**31 March 2017**	**31 March 2016**
	£000	**£000**
Minimum lease payments:		
- Not later than one year	6,018	5,899
- Later than one year and not later than five years	25,853	25,283
- Later than five years	252,342	259,968
Total payment obligations under finance leases	284,213	291,150
- Less interest element	(228,834)	(236,524)
Present value of obligations under finance leases	**55,379**	**54,626**

Present value of lease payment:		
- Not later than one year	6,018	5,899
- Later than one year and not later than five years	17,392	17,274
- Later than five years	31,969	31,453
Total present value of obligations under finance leases	**55,379**	**54,626**

Finance leases relate to the buildings element of longer term lease arrangements for multipurpose test centres which are specialist operational sites with off-road manoeuvre areas for motorcycle testing. The leases are typically over a 40 year period with lease breaks at around 15 and 25 years; rents payable are subject to review periods of five years based on market rates or retail price index calculations. There is no transfer of ownership at the end of the lease and it is considered that there would be minimal residual value of the buildings.

Due to the nature of the finance leases repayments for a number of years at the inception of the lease are lower than the interest accruing in those years at the effective interest rate.

Note 14 – Capital commitments

	31 March 2017 £000	31 March 2016 £000
Contracted:		
Property, plant and equipment	772	-
Intangible assets	785	1,451
Total capital commitments	**1,557**	**1,451**

Note 15 – Cash and cash equivalents

	31 March 2017 £000	31 March 2016 £000
Balance at 1 April	130,411	144,014
Net change in cash and cash equivalent balances	11,377	(13,603)
Balance at 31 March	**141,788**	**130,411**
The following balances at 31 March were held at		
– Government Banking Services	141,036	129,570
– Commercial banks and cash in hand	752	841
Balance at 31 March	**141,788**	**130,411**

Analysis of non-cash transaction for the Statement of Cash Flows:

Adjustments for non-cash transactions	**Note**	**2016-17 £000**	**2015-16 £000**
Depreciation, amortisation, impairment and profit/loss on asset disposal	6	24,054	32,136
Provision provided in year and written back, less unwinding discount	11	4,349	3,513
Dividend	5	(6,298)	(5,256)
		22,105	30,393

Note 16 – Financial Risk Management

Fair values – The carrying values of the Agency's financial assets and liabilities at 31 March 2017 are considered to represent fair value. This is due to the short term nature of the financial instruments held.

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. The majority of the agency's customers pay in advance of a service being supplied.

The carrying amount of the financial assets £159,991,000 (31 March 2016: £145,874,000) represents the maximum credit exposure.

Liquidity Risk – The Agency is not exposed to a liquidity risk as it is expected that further borrowing requirements, should they arise, would be met by loans from the Department for Transport.

The level of capital expenditure payments are managed to be met from available cash balances.

Interest Rate Risk –The interest-bearing loans represent 3% (2015-16: 8%) of total Taxpayers' Equity. There is no risk as the interest rates were fixed at the time of the loan issue and are identified in note 12. No loans were received in 2016-17 (2015-16: nil).

Foreign Exchange Rate Risk – Financial assets and liabilities are generated by day-to-day operational activities and the agency has limited exposure to foreign exchange. Where there is exposure to foreign exchange rates, the risk is tolerated.

Note 17 – Contingent liabilities

There are no contingent liabilities.

Note 18 – Related party transactions

DVSA is an executive agency of the Department for Transport (DfT). During the year it has had a significant number of material transactions with DfT primarily in relation to grant and loan funding, and with other entities for which DfT is regarded as the parent Department, including the Driver and Vehicle Licensing Agency (DVLA).

In addition, the Agency has had various material transactions with other government departments and other central government bodies.

No board member, key manager or other related parties has undertaken any material transactions with the Agency during the year (2015-16: nil).

Note 19 – Events after the reporting period

There have been no events since the 31 March 2017 to the date the accounts were authorised for issue which would affect the understanding of these accounts.

Note 20 – Authorisation of Accounts

These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. IAS 10 requires DVSA to disclose the date on which the Accounts are authorised for issue. This is the date on which the certified Accounts are despatched by DVSA's management to the Secretary of State of the Department for Transport. The authorised date for issue is 7 July 2017.

Note 21 – Graduated fixed penalties and deposits

DVSA collects fixed penalty fines issued by the police and authorised DVSA representatives for vehicle related offences on behalf of HM Treasury. These are paid to the Consolidated Fund.

This note is produced under International Financial Reporting Standards (IFRS) on an accruals basis and give a true and fair view of the state of affairs as at 31 March 2017 relating to the collection and allocation of taxes, licence fees, fines and penalties for the year then ended. The transactions do not form part of DVSA's accounts, instead the memorandum below shows the substance of activity.

DVSA receives no recompense for this activity. In some instances where an offender cannot supply a satisfactory UK address they are asked to give a deposit in respect of a fixed penalty or as a form of surety in respect of a fine where an offence is to be prosecuted in court. Court deposits are held in a designated non-interest bearing account until such time that DVSA is notified by the court of their decision. If the defendant is found guilty then DVSA makes a payment to the appropriate court. Where a defendant is found not guilty the deposit is refunded.

DVSA also collects bus penalties issued by the Traffic Commissioners to operators of local bus services who have failed to run the service or have not done so in accordance with the registered particulars or in contravention of a Quality Partnership Scheme.

Cash collections	**2016-17 £000**	**2015-16 £000**
Revenue for offences in:		
Fixed penalties	4,035	4,282
Bus penalties	24	60
Total Revenue	**4,059**	**4,342**
Cash losses including bad debt	(1)	-
Net revenue for the Consolidated Fund	**4,058**	**4,342**

Balance held on behalf of HM Treasury	**31 March 17 £000**	**31 March 16 £000**
Current Assets:		
Debtors	19	15
Cash and cash equivalents held in trust	698	783
Total Assets	**717**	**798**
Current liabilities:		
Court deposits	(59)	(42)
Unallocated receipts	-	(1)
Total Liabilities	**(59)**	**(43)**
Balance due to Consolidated Fund	**658**	**755**

Cash balance movement	**2016-17 £000**	**2015-16 £000**
Net revenue for the Consolidated Fund	4,058	4,342
(Increase)/decrease in debtors	(4)	13
Increase/(decrease) in liabilities	16	2
Cash paid to the Consolidated Fund	(4,155)	(4,387)
Net increase/(decrease) in cash and cash equivalents	**(85)**	**(30)**
Cash and cash equivalents at the beginning of the year	783	813
Cash and cash equivalents at the end of the year	**698**	**783**

Annex A

Treasury Minute setting DVSA’s further financial objectives

Driver and Vehicle Standards Agency

Treasury Minute Dated 31 March 2016

1 Section 4(1) of the Government Trading Funds Act 1973 provides that a trading fund established under that Act shall be under the control and management of the responsible Minister and, in discharge of his function in relation to the fund, it shall be his duty:

(a) To manage the funded operations so that the revenue of the fund:

(i) consists principally of receipts in respect of goods or services provided in the course of the funded operations, and

(ii) is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and

(b) To achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.

2 A trading fund for the Driver and Vehicle Standards Agency was established on 1 April 2015 under the Driver and Vehicle Standards Agency Trading Fund Order 2015 (SI 2015 No. 41).

3 The Secretary of State for Transport, being the responsible Minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by the Driver and Vehicle Standards Agency Trading Fund for the 5-year period from 1 April 2015 to 31 March 2020 shall be to achieve a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities after the recognition of interest receivable, but before interest and dividends payable, expressed as a percentage of average capital employed. Capital employed shall equate to the capital and reserves, i.e. the Public Dividend Capital, long-term element of Exchequer loans, and reserves.

4 This Minute supersedes that dated 5 June 2014.

5 Let a copy of this Minute be laid before the House of Commons pursuant to section 4(1)(b) of the Government Trading Funds Act 1973.

Annex B

Sustainability report

This report below describes DVSA's performance against the Greening Government Commitments (GGC) and is produced in line with HM Treasury Public Sector Annual Reports: Sustainability Reporting Guidance 2016-17. The report includes a range of environmental performance indicators, sets out our performance against the 2009-10 baseline year and sets out the steps being taken to reduce the Agency's environmental impact.

Performance against the Greening Government Commitments

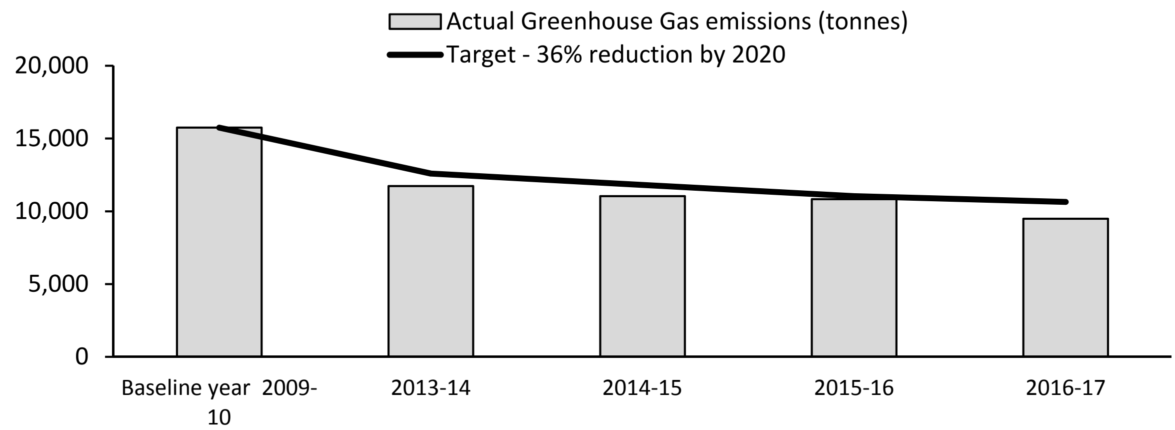
The tables below show the Agency's performance against the updated Greening Government Commitments targets that were launched in December 2016.

Greenhouse gas emissions

DVSA's target is to reduce greenhouse gas emissions by 36%, 10,078 tonnes of CO2 equivalent, by 2020. Performance towards this target is set out in the following table. Emissions are defined under three different scopes by the Greenhouse Gas Protocol. See www.ghgprotocol.org for further details.

Greenhouse Gas Emissions (tonnes CO2e)	**Baseline year 2009-10**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Annual Target	15,748	12,598	11,811	11,040	10,647
Actual emissions:					
Scope 1: Direct emissions	4,323	3,462	3,246	3,915	3,524
Scope 2: Indirect emissions from purchased electricity	7,064	5,113	4,664	4,112	3,548
Scope 3: Other indirect emissions (including business travel in vehicles not owned by DVSA)	4,361	3,164	3,130	2,809	2,417
Total emissions	**15,748**	**11,739**	**11,040**	**10,836**	**9,488**
Total emissions per FTE	3.2	2.5	2.5	2.5	2.1

Note: The figures for 2015-16 shown in the table were finalised after the publication of the 2015-16 Annual Report and Accounts.



The Agency's performance in reducing greenhouse gas emissions already exceeds the 2020-21 target. This has been achieved by significant reductions in electricity use, by increasing business travel by rail and by reducing business travel by road and air.

Information about the Agency's energy consumption and expenditure on energy and about business travel is set out in the following tables.

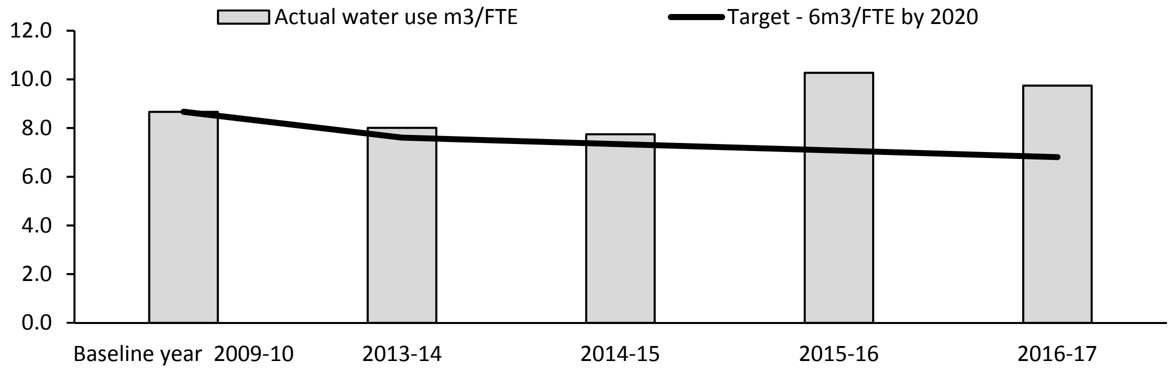
Energy consumption	**Baseline year 2009-10**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Electricity consumption (GWh)	13.3	10.1	8.7	8.2	7.9
Gas Consumption (GWh)	11.5	8.6	7.5	8.6	8.7
Oil and LPG consumption (GWh)	1.6	1.0	1.1	0.8	1.0
Energy use per FTE (kWh)	5,343	4,512	3,903	4,023	3,955
Total energy expenditure (£m)	2.3	1.9	1.9	1.7	1.6
Energy expenditure per FTE (£)	474	426	426	381	361

Business travel	**Baseline year 2009-10**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Domestic air travel (number of flights)	2,742	1,239	1,571	1,339	1,589
Business travel (all modes – millions of km)	31.0	27.8	29.0	29.8	27.5
Business travel per FTE (km)	6,287	6,343	6,575	6,773	6,175

Water use

DVSA's target is to reduce water use to 6m3/FTE (including staff and visitors) by 2020. Performance towards this target is set out in the following table:

Water use (m3/FTE)	**Baseline year (2009-10)**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Annual Target	8.7	7.6	7.3	7.1	6.8
Actual	8.7	8.0	7.7	10.3	9.7



DVSA has reduced its water consumption by 5% in 2016-17. Water consumption has been investigated at over 30 sites and the Agency continues to focus on sites that exceed benchmark water consumption. Water services are being modernised at sites where the opportunity arises and high water use is being tackled through engagement with staff and other actions.

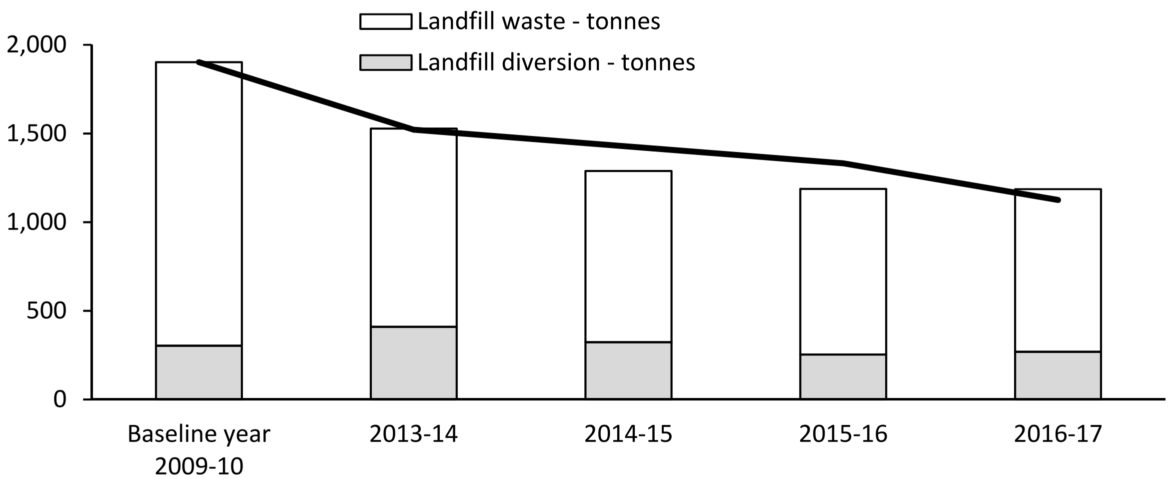
Further information about the Agency's water consumption and expenditure on water is set out in the following table.

Water	**Baseline year 2009-10**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Water Consumption m3	61,502	56,795	54,949	72,867	69,118
Total Water Expenditure £000s	340	428	438	363	449
Water expenditure per FTE (£)	67	95	99	83	101

Waste

DVSA's target is to reduce the amount of waste going to landfill to less than 10% by 2020, equivalent to less than 190 tonnes. Performance against the target is set out in the following table:

Waste (tonnes)	**Baseline year (2009-10)**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Annual Target	1,902	1,522	1,426	1,331	1,125
Actual	1,902	1,527	1,289	1,187	1,186
Of which:					
Landfill diversion	303	409	323	254	269
Waste to landfill	1,599	1,118	966	933	917



DVSA diverted 23% of its waste from landfill in 2016-17, an improvement from 15% in the baseline year, and has significantly reduced the amount of waste in total. An estate-wide waste audit was conducted, to improve the quality of our waste data. This will support to work towards the GGC target.

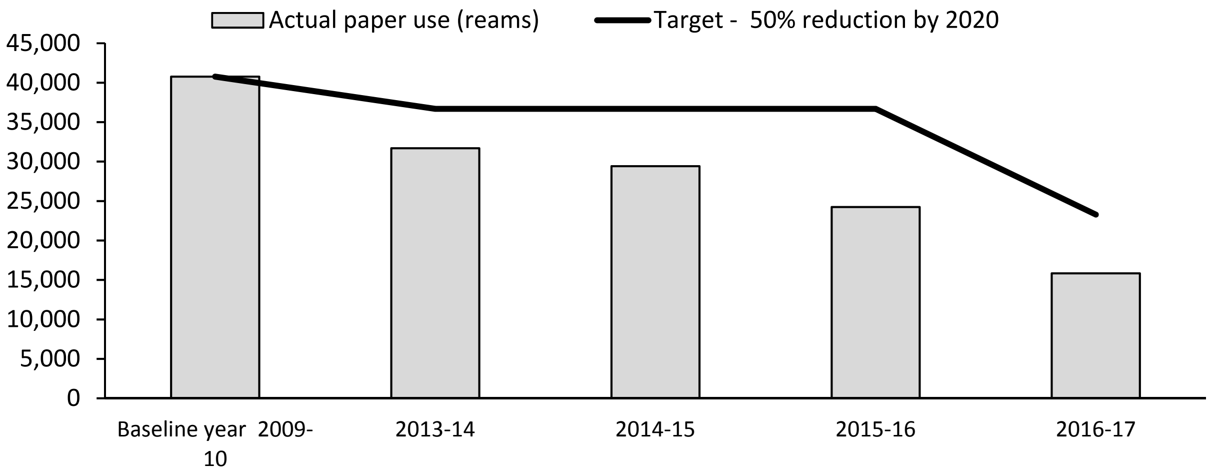
Further information about the Agency's expenditure on waste is set out in the following table. Data from 2009-10 to 2014-15 is based on the data for the former Vehicle and Operator Services Agency only, prior to the creation of DVSA. Data from the former Driving Standards Agency is not available.

Waste	**Baseline year (2009-10)**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Expenditure on waste - £000s	98	130	148	239	215
Expenditure per FTE (staff only) - £	35	57	50	83	48

Paper use

DVSA's target is to reduce paper user by 50% by 2020, equivalent to 20,386 reams. Performance against the target is set out in the following table:

Paper use (reams)	**Baseline year (2009-10)**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Annual Target	40,772	36,695	36,695	36,695	23,286
Actual	40,772	31,685	29,421	24,252	11,411



Buying 'greener' products and services

DVSA aims to meet its business needs in a way that achieves value for money while minimising damage to the environment. The Agency is committed to sustainable procurement and uses Government Buying Standards (GBS) in procuring goods and services such as paper, furniture and electrical goods. The Agency uses GBS for construction work, applying the Building Research Establishment Environmental Assessment Method (BREEAM) design standards in the construction and redevelopment of sites.

The implementation of a new Facilities Management contract during 2017-18 is expected to improve the Agency's performance on the management of waste and recycling going forward.

Glossary

ATF	Authorised Testing Facility
CETV	Cash Equivalent Transfer Value
CVS	Commercial vehicle services
DfT	Department for Transport
DRS	Driver and rider services
DSA	Driving Standards Agency
DVLA	Driver and Vehicle Licensing Agency
DVSA	Driver and Vehicle Standards Agency
EU	European Union
FReM	Financial Reporting Manual
FTE	Full Time Equivalent
GBS	Government Buying Standards
GGC	Greening Government Commitments
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue & Customs
IFRS	International Financial Reporting Standards
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IT	Information Technology
MOT	Annual statutory test for private vehicles
NAO	National Audit Office
NED	Non-Executive Director
OLCS	Operator Licensing Compliance System
PCSPS	Principal Civil Service Pension Scheme
PFI	Private Finance Initiative
REO	Remote Enforcement Office
ROCE	Return On Capital Employed
SoCNI	Statement of Comprehensive Net Income
SoCTE	Statement of Comprehensive Taxpayers' Equity
VAT	Value Added Tax
VOSA	Vehicle and Operator Services Agency

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