



Driver & Vehicle
Standards
Agency

Driver and Vehicle Standards Agency
Annual Report and Accounts
2015 to 2016

Driver and Vehicle Standards Agency

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Message from the Chief Executive Gareth Llewellyn

I joined the Driver and Vehicle Standards Agency (DVSA) in April 2016 and am privileged to lead an organisation that is central to delivering world-class road safety for Great Britain, a key underpin for both economic growth and a vibrant transport industry.

In the short time I have been with DVSA I have been impressed by the clear commitment of people at all levels in the organisation to improving road safety and their desire to provide a high quality service to the public and to our stakeholders. We achieved or exceeded 20 out of our 23 performance measures last year, a period during which the organisation was undergoing significant changes following the merger of our two predecessor bodies. This performance is a credit to the dedication and professionalism of our people.

We play a key role in helping people enjoy a lifetime of safe driving and at the core of this are the driving tests. Last year saw much higher than expected demands for theory and practical tests across cars, large goods vehicles (LGVs) and motorcycles. This increase in demand has resulted in higher than expected waiting times in some parts of the country. We are working hard to reduce waiting times during 2016 to 2017 and to ensure the tests reflect the real world conditions new drivers will experience.

The introduction of a new MOT testing system across 22,700 garages last year coupled with progress on next generation testing of large goods vehicles, supports our aim of ensuring vehicles are safe to drive on our roads.

The benefits of our work extend beyond road safety. By targeting our enforcement, we remove unsafe vehicles from the road network and in doing so help reduce delays on our roads, Great Britain's key economic arteries. Protecting the public from unsafe vehicles and operators will continue to be a core activity for us in the future.

The past 12 months have been both successful and challenging, but I know there is more that can be done. During 2016 to 2017 we will be developing a five-year strategic business plan setting out how we aim to deliver improved services and performance across all areas of our business. DVSA plays a critical role in protecting the public as they travel on the road network and by adopting a more strategic approach to our work, I am confident we will make even greater progress in the years ahead.



Gareth Llewellyn
DVSA Accounting Officer and Chief Executive

Performance Report

Overview

The past 12 months have been challenging and the agency has been through a period of significant change. We have made great progress in delivering our plan and achieving our aim of becoming one DVSA.

We have put robust plans in place to respond to the Spending Review announcement made in November 2015 and the Motoring Services Strategy consultation undertaken between November 2015 and January 2016. These two things form the external backdrop to the internal challenges we already know lots about. We have worked hard as an agency to move our organisation forward from merger and transform the work we do to make sure that we set and regulate clear standards for safe driving, riding and vehicle safety, including providing appropriate education and enforcement services.

Key achievements in 2015 to 2016 include the following:

- meeting 20 out of 23 business plan measures
- introducing the new MOT testing service to over 22,700 garages in September 2015
- completing the trial on changes to the car practical test to assess whether candidates felt better prepared for driving independently
- setting out our plans to improve motorcycle training, in particular compulsory basic training
- focusing on training new vocational examiners and multi skilling existing examiners
- continuing our successful programme to take large goods vehicle testing closer to the customer
- continuing to develop an earned recognition scheme, which will formally recognise exemplar operators with a strong track record of compliance
- retaining the Customer Service Excellence Award and Contact Centre Accreditation
- achieving £12m in efficiency savings
- celebrating the 80th anniversary of the driving test

The biggest challenge we have faced throughout the year has been the increase in demand for all theory and practical driving tests, which has meant we didn't achieve our waiting time measure of 6 weeks for car practical tests. We are aware of the impact this is having and are working hard to reduce waiting times. In particular, we are training more new examiners and upskilling existing ones in all categories of tests to respond to this and any future increases.

Since the award of the theory test contract to learndirect in 2013, demand for the test has increased by over 50 per cent to 2.4m (2015 to 2016) and is now forecast to reach 2.8m in 2017 to 2018. Against that background, and because continuity of service is of primary importance, it has been decided that now is not the right time to consider a possible alternative service supplier. Pearson VUE will therefore continue to provide the service for the next four years.

We have worked with staff across all grades and roles to introduce the 'making DVSA better' initiative where issues and concerns about their working environment can be raised. From this the board has encouraged teams to work on producing plans on how to resolve all of the big issues. In addition to this, senior managers have been encouraged to visit examiner sites to talk to staff and support them with any ideas or issues that they may have.

Without the hard work and dedication of our staff and stakeholders we would not have been able to achieve what we have in a very challenging year and I want to thank them for their contributions.

Paul Satoor
Interim Chief Executive (until 31 March 2016)

Purpose and activities

The DVSA is an executive agency of the Department for Transport (DfT). It is a new trading fund created in 2015 from the merger of two former trading funds; the Driving Standards Agency (DSA) and the Vehicle and Operator Services Agency (VOSA). This is the first annual report of the new agency/trading fund.

We improve road safety in Great Britain by:

- setting standards for driving and motorcycling
- making sure drivers, riders, vehicle operators and MOT garages understand and follow roadworthiness standards
- providing a range of licensing, testing, education and compliance services

We provide modern and efficient services which:

- meet the changing needs of business and the public
- help to keep people safe
- protect the environment

We do this by:

- setting clear standards for safe driving and vehicle safety
- putting the customers at the heart of everything we do

We are responsible for:

- improving driving skills by:
 - setting standards for driving, riding and training
 - testing people to those standards
- regulating standards of driving and riding instructors and making sure that they are approved to provide the right level and types of training
- regulating the MOT service so that garages maintain the right standards to keep vehicles safe on the roads
- making sure commercial vehicle operators, their drivers and their vehicles meet roadworthiness standards and follow safety rules
- approving the Driver Certificate of Professional Competence (CPC) courses that lorry, bus and coach drivers have to take to stay driving legally
- providing advice, information and education for motorists to help keep all road users safe
- delivering Operator Licensing and Compliance Services in line with the service level agreements agreed with the Traffic Commissioners for Great Britain and the Northern Ireland Transport Regulator

Key risks and issues

The main risks and issues managed in the year are considered within the Governance Statement, which starts on page 31. These include:

- delivering appropriate technical solutions to meet customer needs
- introducing common processes and systems across the organisation to allow the benefits of merger to be fully realised
- upgrading the IT infrastructure
- meeting the demand for driving tests within a period of industrial action
- managing the transition of the theory test supply contract

About this report

This Annual Report and Accounts is the principal means for formally reporting to Ministers and Parliament on DVSA's performance and includes the statutory financial statements. It covers the period 1 April 2015 to 31 March 2016.

Performance summary

This performance framework summarises our performance objectives for the year and how we performed against them.

Throughout the year our Management Committee (previously known as the Business Performance Board prior to October 2015) provides a monthly scrutiny role of performance against objectives.

The Department for Transport Motoring Services Group receives a monthly summary as part of DfT's performance review governance. More on governance of the agency can be found within the Governance Statement which starts on page 31.

In 2015 to 2016 we have achieved 20 out of 23 published performance measures.

Achievement against our published business plan measures is detailed below:

Performance measure	Outcome at year end	Achievement at year end	For further details see
Complete the practical test phase of the research on possible enhancements to the practical car driving test by January 2016	Completed	Achieved	Testing activities
Offer candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date for 95% of candidates	97%	Exceeded	Testing activities
Achieve 90% of theory test candidates that are satisfied with the overall level of service they have received	94%	Exceeded	Testing activities
Annual average waiting time for car practical tests at no more than 6 weeks	8.4 weeks	Not achieved	Testing activities
Conduct 95% of lorry, bus and coach annual tests at non-DVSA sites by March 2016	97%	Exceeded	Testing activities
Honour DVSA-confirmed reservations at Authorised Testing Facilities (ATFs) for 95% of reservations	99.9%	Exceeded	Testing activities
Complete the switch-over of all MOT garages to the new MOT testing service by September 2015	Completed	Achieved	MOT
Maintain levels of satisfaction with the new MOT testing service at 87%	76%	Not achieved	MOT
Develop and shadow run a new compliance measure in response to consultation by October 2015	Completed	Achieved	MOT

Performance measure	Outcome at year end	Achievement at year end	For further details see
Demonstrate the effectiveness of our targeting of non-compliant lorry operators and drivers by achieving an overall prohibition rate at targeted checks that is at least 12 percentage points higher than the rate found through the 2014 to 2015 random compliance checks baseline of 11.1% i.e. 23.1% or greater	26.1%	Exceeded	Compliance
Retain Customer Service Excellence accreditation by March 2016	Retained	Achieved	Advice, information and education
Maintain or improve the take-up of digital services to 90% of our business	96%	Exceeded	Digital services
As part of our strategy to reduce our overall estate, to have marketed and/or sold 30 premises by March 2016	35 Sites*	Exceeded	Delivering the plan
Deliver financial performance of a break-even position for the year to 31 March 2016	£12.0 million	Exceeded	Delivering the plan
Deliver efficiency savings of £9 million	£12.0 million	Exceeded	Delivering the plan
Customer complaints: By March 2017 reduce by 10% the number of complaints not resolved at first contact compared with 2014 to 2015 To achieve this, less than 5.9% of complaints should be escalated to the second stage	5.5% of complaints escalated to second stage	Exceeded	Delivering the plan
Prompt payment: payment of 80% of invoices within 5 working days	98%	Exceeded	Delivering the plan
Freedom of Information: provide a 93% response within 20 working days	98%	Exceeded	Delivering the plan
Parliamentary questions: provide a 100% response within due date	100%	Achieved	Delivering the plan
Parliamentary correspondence: provide a 100% response within 7 working days	100%	Achieved	Delivering the plan
Official correspondence: provide a 80% response within 20 working days	99%	Exceeded	Delivering the plan
Ensure the average number of working days lost due to sickness does not exceed 7 days	10.86 days	Not achieved	Workforce management

Performance measure	Outcome at year end	Achievement at year end	For further details see
Full time equivalent (FTE) numbers as at 31 March 2016 will be no more than 4,470	4,393	Exceeded	Workforce management

* In addition to the cumulative total of 35 sites that have been sold or marketed by the end of 2015 to 2016, we have surrendered leases, terminated memoranda of terms of occupation or leases have expired in relation to a further six sites during 2015 to 2016.

Performance analysis

Testing activities

As in 2014 to 2015, we again saw increasing levels of demand for most categories of test within DVSA.

Performance measures

- complete the practical test phase of the research on possible enhancements to the practical car driving test by 31 January 2016
✓over 4,400 learners took part in the trial
- offer 95% of candidates an appointment at their preferred theory test centre within two weeks of their preferred date
✓97% of appointments were offered to candidates at their preferred theory test centre
- at least 90% of theory test candidates are satisfied with the overall level of service they have received
✓94% of theory test candidates are satisfied with the overall level of service
- annual average waiting time for car practical tests will be no more than six weeks
*year-end achievement was 8.4 weeks
- conduct 95% of lorry, bus and coach annual tests at non-DVSA sites by 31 March 2016
✓97% of tests conducted at non-DVSA sites
- honour 95% of all DVSA-confirmed reservations
✓99.9% confirmed reservations honoured

Car practical driving test

DVSA had planned for a 2.3% (37,000) increase in demand for car practical driving tests in 2015 to 2016 compared to the previous year but demand actually increased by 5.8% (93,000). The pass rate for car practical tests was 47%. Although we managed to deliver some of the increased demand, due to the level of the increase this has led to an increase in average waiting times, from 6.5 weeks to 8.4 weeks.

There are a number of reasons why we didn't achieve the waiting time measure of no more than 6 weeks including:

- the inability to recruit sufficient new driving examiners to keep up with the rising demand
- the impact of industrial action towards the end of 2015

With demand continuing to increase for both car and vocational driving tests, we will:

- improve our forecasting and planning for 2016 to 2017
- have plans in place to prioritise recruitment activities to increase the number of examiners into the business throughout 2016 to 2017

000s	2013 to 2014 actual	2014 to 2015 actual	2015 to 2016 plan	2015 to 2016 actual
Car practical test				
Demand	1,523	1,603	1,640	1,696
Throughput	1,522	1,581	1,598	1,584

In 2015 to 2016 we have:

- conducted research and trials to changes to the car practical test to assess whether candidates felt better prepared for driving independently after they've passed their test. Over 4,400 learners took part in the trial and initial feedback from Transport Research Laboratory has been positive
- commissioned research into the practical test delivery model to consider alternative delivery models
- retained our ISO9001:2008 certificate for the 'quality control and quality assurance of licence acquisition for practical tests' which covers practical driving tests for cars, motorcycles, lorries, buses and coaches

Theory test

Compared to the previous year demand for theory tests has increased by 13.7% for car, 13.3% for motorcycle and 23.3% for vocational.

In 2015 to 2016 we have:

- prepared for the planned change of the theory test contract while ensuring continuity of service
- maintained high service levels during a time of significant growth in customer volumes
- helped motorists with the cost of driving by reducing the cost of the theory test by a further £2 in October 2015 from £25 to £23

000s	2013 to 2014 actual	2014 to 2015 actual	2015 to 2016 plan	2015 to 2016 actual
Car theory test				
Demand	1,769	1,914	1,950	2,176
Throughput	1,685	1,859	1,950	2,102

Motorcycle testing

Demand for motorcycle tests has risen steadily during the year.

Compared to 2014 to 2015 demand for:

- module 1 (off road) tests has increased by 5.1%
- module 2 (on road) tests demand has increased by 7.3%

The pass rate for both module 1 and module 2 motorcycle tests has increased slightly to 71.3% for 2015 to 2016.

000s	2013 to 2014 actual	2014 to 2015 actual	2015 to 2016 plan	2015 to 2016 actual
Theory test – motorcycle (m/c)				
Demand	65	75	78	85
Throughput	58	70	78	79
Module 1 – m/c off road				
Demand	52	59	63	62
Throughput	49	55	62	59
Module 2 – m/c on road				
Demand	48	55	61	59
Throughput	46	52	61	56

In 2015 to 2016 we have:

- set out our plans to improve motorcycle training, in particular Compulsory Basic Training (CBT) for learner motorcyclists
- introduced changes to the CBT standards check, moving away from the previous fault-based assessment which tended to focus on what was taught, to one that focuses on how the training is delivered based on:
 - lesson planning
 - risk management
 - teaching and learning strategies
- successfully piloted unannounced CBT compliance visits and will continue with these from April 2016 onwards

Vocational testing

DVSA had planned for an 11% (10,000) increase in demand for vocational testing compared to the previous year but actual demand increased by 22% (20,000). This is the highest increase since 2005 to 2006.

We have met this heightened demand by delivering more tests than previous years; however, the extent of the increase has led to short-term increases in average waiting time. The average waiting time has increased from 3.4 weeks to 5.7 weeks.

Since Driver Certificate of Professional Competence (CPC) was introduced in 2007:

- over 30 million hours of Driver CPC periodic training has been delivered
- over 850,000 Driver Qualification Cards have been issued

000s	2013 to 2014 actual	2014 to 2015 actual	2015 to 2016 plan	2015 to 2016 actual
Theory test – Lorry (LGV) / bus and coach (PSV)				
Demand	49	60	70	74
Throughput	44	54	70	67
Practical test – Lorry (LGV) / bus and coach (PSV) / car and trailer (B+E)				
Demand	80	92	102	112
Throughput	77	86	102	104
Driver CPC Mod 2				
Demand	32	42	50	53
Throughput	28	36	50	44
Driver CPC Mod 4				
Demand	16	22	30	28
Throughput	16	22	30	26

In 2015 to 2016 we have:

- focused on training new vocational examiners and multi skilling existing examiners where possible
- performed over 90,000 checks on professional drivers on road since Driver CPC became a legal requirement for all professional drivers in September 2014.
- reviewed findings that indicate that over 99% of professional drivers have a Driver Qualification Card, evidencing that they have completed the initial qualification. Whilst work continues to improve this statistic we are satisfied with this level of compliance
- worked with the freight/logistics and passenger carrying industries to improve driver recruitment by regulatory change, such as:
 - acquired rights drivers obtaining their first Driver Qualification Card by taking the initial qualification instead of undergoing periodic training
 - extending the radius of a Driver CPC exemption from 50km to 100km for some drivers
- undertaken promotional activity in partnership with the industries' representative bodies to highlight the benefits of Driver CPC to the industry in terms of recruitment and the positive effects this can have on a driver's professional development
- worked with commercial partners such as Transport for London, DHL and the industries' representative bodies to highlight positive, tangible benefits that a well organised, pragmatic driver training programme can deliver to a business. These messages have been widely shared through articles in the trade press, social media and DVSA updates to hundreds of thousands of drivers. The UK's flexible and reactive "CPC brand" has also been used as an exemplar for non-EU countries wishing to introduce similar measures to improve road safety
- worked with Abu Dhabi, Saudi Arabia and China to provide guidance and support to help improve the standards of vocational drivers across the world

Vehicle testing

Large goods vehicle (LGV) annual test volumes increased by 5.3% (47,005) from the previous year. In the same period the final pass rate increased from 89.08% to 91.24%.

Public service vehicle (PSV) annual test volumes reduced marginally by (0.8%) (831). The PSV final pass rate increased from 90.82% to 91.74%.

In 2015 to 2016 we have:

- increased the number of vehicle tests carried out at non DVSA sites with 97% now being carried out in a network of over 530 privately owned Authorised Testing Facilities (ATFs) across the country
- continued our successful programme to take large goods testing closer to the customer. Next Generation Testing has continued to roll out across the national network at pace, providing a more flexible service for lorry, bus and coach vehicle tests at a greater number of ATFs, enabling them to offer extended hours of testing to their customers
- worked to move specialist scheme testing and approval to 3rd party (non DVSA) sites
- improved our individual approvals services by simplifying our application process, introducing revised test times and launching a number of best practice guides to improve standards and pass rates
- ceased carrying out Vehicle Identity Checks, which will make it easier and cheaper for motorists and businesses to return repairable, written off vehicles to the road, saving them an estimated £9.7m a year and reducing the costs incurred by business by c£4.8m
- started work to develop our annual test processes to meet Directive 2014/45/EU

MOT

In September 2015 DVSA introduced the new web based service for recording and managing MOT test results.

We have successfully delivered over 22 million tests under the new service through 22,700 garages and 80,000 users. This has enabled garages to issue 150,000 certificates every working day, equating to more than 250 tests per minute.

Performance measures

- complete the switch over of all MOT garages to the new MOT testing service by 30 September 2015
✓22,700 garages successfully switched over to the new MOT testing service
- maintain levels of satisfaction with the new MOT testing service at 87%
*satisfaction level of 76%
- develop and shadow run a new compliance measure in response to consultation by 31 October 2015
✓measure for 2016 to 2017 is to develop a strategy to improve how we tackle MOT fraud and establish a baseline for future monitoring and improvements

In 2015 to 2016 we have:

- successfully transitioned the new MOT testing service from the legacy provider to an in-house platform for 22,700 garages
- introduced processes to manage the new MOT service, including transitioning to an approach where future developments are driven from user feedback – in line with Government Digital Services (GDS) Digital by Default Service Standards
- passed the GDS Digital by Default Service Standard
- continually improved the MOT testing service since implementation to enhance reliability, and improve functionality in line with user feedback
- introduced, in March, a new set of standards to simplify the testing of headlamps during MOTs bringing the headlamp aim standards in line with EU directives
- worked with the Institute of the Motor Industry, the Retail Motor Industry Federation, City and Guilds and ABC Awards to help produce a set of national occupational standards for MOT testers and managers
- implemented the MOT history service which went live in November, enabling motorists to check a vehicle's MOT history

Compliance

We carry out targeted checks on commercial vehicle operators to ensure compliance with roadworthiness and safety standards.

In 2015 to 2016 we encountered over 189,000 LGV vehicles and drivers at the roadside, and carried out over 3,200 non roadside checks.

Non-compliant vehicles and operators may be subject to prohibitions and sanctions. Fines for non-compliance are paid over to HM Treasury.

Performance measures

- demonstrate the effectiveness of our targeting of non-compliant lorry operators and drivers by achieving an overall prohibition rate at targeted checks that is at least 12 percentage points higher than the rate found through the 2014 to 2015 random compliance checks baseline of 11.1% i.e. 23.1% or greater
✓26.1% compared with actual 2014 to 2015 random check rate of 11.1%

In 2015 to 2016 our compliance activities have included:

- continuing to work on the new lorry levy successfully introduced on 1 April 2014. In 2015 to 2016 foreign lorry operators from 90 countries have purchased more than 1.8 million levies, a time-based charge that ensures all lorries over 12 tonnes contribute towards the cost of their use of UK roads. DVSA compliance teams, using Automatic Number Plate Recognition (ANPR) technology to target non-compliance, have issued over 4,058 fixed penalty notices and taken roadside fines of £1,219,300
- increasing operator compliance by introducing the Remote Enforcement Office (REO). The REO conducts remote analysis on operators' compliance systems and uses ANPR to help inform strategic targeting
- continuing to develop, along with internal and external stakeholders, an earned recognition scheme which will formally recognise exemplar operators with a strong track record of compliance. DVSA will remotely access vehicle and driver data of recognised operators to minimise unnecessary disruption through the delays caused by the stopping and checking of compliant vehicles

Our action on safety has been:

- continued support for the 'safer lorry scheme for London' where vehicles of more than 3.5 tonnes entering the city must now be fitted with sideguards to protect cyclists in the event of a collision, alongside other measures to protect cyclists and pedestrians
- the successful introduction of changes to the tachograph centre audit process to accommodate the changes to EU tachograph regulations, whilst also publishing updated drivers' hours guides to reflect the implemented changes to tachograph exemptions
- support for the initiative to achieve 100% compliance of buses and coaches with the Disability Discrimination Act by January 2017
- to achieve the Prince Michael International Road Safety Award for our partnership with the transport industry to develop a training, education and enforcement strategy around load security

Our partnership work has been:

- ongoing work with the Confederation of Organisations in Road Transport Enforcement, the International Motor Vehicle Inspection Committee (CITA) and the European Commission to start modernising roadside inspection processes ahead of meeting the roadside inspection directive (directive 2014/47/EU) by May 2018
- to work with DfT to make sure that all preparations are in place ahead of the necessary legislative changes for the introduction of fixed penalty notice/financial deposit procedures for historical drivers' hours offences
- a joint operation with Derbyshire Police and Derbyshire County Council, inspecting non-compliant stretch limousines. Stringent compliance action was taken in relation to six vehicles where numerous vehicle and driver standards offences were found
- collaboration between our traffic examiners and their European counterparts in France to share compliance best practice and develop relationships for more collaborative working
- hosting a visit from representatives of the People's Republic of China, where we introduced them to our driver standards and testing, Driver CPC and driving instruction in the UK

- continued work with the Police and Transport for London, targeting the most dangerous commercial vehicles in the capital. During the last 2 years, this partnership has undertaken joint intelligence-led operations, with the result that:
 - 14,831 vehicles were stopped
 - 3,871 roadworthiness prohibitions were issued
 - 881 driver hours prohibitions were issued
 - 4,796 graduated fixed penalties were issued
 - 181 vehicles were seized (no insurance or operator licence)
 for which all partners were awarded the Worshipful Company of Carmen's Royal Logistic Corps Safety Award

Fraud and integrity

DVSA's fraud and integrity team continued to tackle instances of suspected impersonation and Bluetooth fraud at theory and car practical driving tests to reinforce our commitment to improving road safety.

We work closely with our external stakeholders such as the Police, Crown Prosecution Service, courts and other Government agencies, towards reducing the number of impersonations/fraud attempts.

During this year we received 818 reports of suspected impersonations, which related to 2,144 suspect theory and/or car practical driving tests, some of which are still under investigation.

During 2015 to 2016:

- 355 individuals were arrested by the Police as a result of our investigations
- 202 individuals received a police caution
- 69 individuals were convicted of offences in the courts. Of these, 46 received prison terms
- we revoked 111 driving licences
- we investigated 98 reported cases of illegal driving instruction and 14 individuals were arrested by the Police. During the year, 6 individuals received a police caution and 4 received a court conviction

In addition, the team investigated 19 LGV Operators, 5 PSV Operators and 11 MOT garages resulting in a further:

- 69 prosecutions
- 66 referrals to the Traffic Commissioner for Public Inquiry
- removal of 20 MOT Authorised Examiners or Authorised Testers

We use appropriate media channels to promote the team's work, which reinforces the message that those found guilty of these offences can expect to be penalised. This has been shown through:

- the use of our dedicated twitter feed @DVSAFraud
- ITV Television Exposure series "Who's driving on Britain's roads"

Internal fraud and bribery

We will not accept any instance of fraud or bribery and we require all staff, at all times, to act honestly and with integrity and to safeguard the public resources for which they are responsible. All cases of actual or suspected internal fraud or bribery are investigated promptly and disciplinary action is taken where appropriate. We communicate with our staff to raise awareness and to promote an anti-fraud and bribery culture.

Licensing and authorisation

Approved driving instructors (ADI)

As the approved regulatory authority for driving instructors we test, and make sure standards are met, for approximately 40,000 Approved Driving Instructors (ADIs).

In 2015 to 2016 we have:

- conducted 9,727 standards checks on ADIs to test their continued ability and fitness to instruct
- continued to develop proposals for an ADI earned recognition scheme and to replace the current ADI part 3 test with the ADI standards check
- issued updated guidance on the fit and proper criteria so that those that we regulate better understand the criteria to become and remain an ADI

Operator licensing

In 2015 to 2016 we have delivered:

- operator licensing services within budget and in line with targets within the Service Level Agreement for both the Office of the Traffic Commissioners for Great Britain and the Transport Regulator within the Department for Environment (Northern Ireland)
- a replacement business system, the Operator Licensing Compliance System, into private beta testing to support goods and passenger operator licensing and replace the operator self-service on behalf of the Office of the Traffic Commissioners for Great Britain and the Northern Ireland Transport Regulator

Advice, information and education

Performance measures

- retain Customer Service Excellence by March 2016
✓Customer Service Excellence retained

Customer contact centre

In addition to successfully retaining our Customer Service Excellence standard for our Central Licensing Office, Swansea Contact Centre and Driver Services, we have also retained the Customer Contact accreditation for our Newcastle and Swansea Contact Centres.

In 2015 to 2016 we received nearly a million calls into our contact centres.

Hazard perception tests

The hazard perception test is an integral part of the theory test. To improve learner education, we licence a number of educational tools and materials.

The 'Theory Test Kit' is the most downloaded education app from Apple UK, and it's consistently getting 5-star reviews. Popular demand led us to develop an iOS app dedicated to hazard perception skills.

Following feedback from the Transport Select Committee, Transport Resilience Committee and the Safety at Level Crossings report from the House of Commons, we trialed 50 new hazard perception clips including some featuring motorway driving, stray animals and vulnerable road users.

Van smart

We are working closely with stakeholders and trade member organisations to publicise specific van safety messages.

This includes promoting the van walk around safety check on websites and in newsletters and a dedicated van safety webpage that contains essential information for drivers, including a new weighbridge tool that helps them find their nearest weighing facility.

Highway Code

The Highway Code published on GOV.UK has been made easier to use, as research shows that keeping it up to date changes people's behaviour for the better.

Improvements to how the Highway Code is published on GOV.UK means users can:

- search within the Highway Code, rather than all of GOV.UK
- quickly move between related rules
- follow links to the original laws that the rules are based on
- see signs, signals and markings in their browser
- print sections more easily

The rules in the Highway Code are updated when there are changes in the law and a list of the latest updates are now included on GOV.UK, making it easier than ever to stay up to date.

Research undertaken on Highway Code social media activity showed 80% of recipients improved their knowledge, and over 60% actively improved the way they behave on the roads. Nearly all would recommend the services to family and friends.

We also analyse posts and YouTube videos to measure what works best for people and use this to continually improve.

International relations

DVSA continued to be an active member of CIECA, the International Commission for Driver Testing, whose aim is to improve driver and rider competence and safety through the identification and promotion of best practice in driver and rider training and testing. DVSA is represented at CIECA Permanent Board level, its Expert Advisory Group and Theory Test Advisory Group.

We are also members of CITA which is the International Motor Vehicle Inspection Committee. We chair, lead and participate in projects and workshops to develop recommendations on best practice and international environmental and road safety regulations and standards.

DVSA have supported Abu Dhabi's Department of Transport by providing expertise to help them establish a more effective commercial vehicle inspection regime. This included the launch of a heavy vehicle testing manual and providing training expertise to aid the development of a programme of tester training.

Digital services

Increasingly more of our services are delivered on-line such as booking a theory or practical driving test and MOT services. In 2015 to 2016 over 6 million transactions were undertaken digitally.

Performance measures

- maintain or improve the take-up of digital services to 90% of our business
✓ e-take up improved to 96%

Throughout the year we have made improvements to a number of high volume public and business facing digital services which included:

- the internet booking system, on-line business system and Driver Certificate of Professional Competence services
- the 'responsive design' within the internet booking system that allows it to support the much greater range of screen sizes (and types of device) that are currently provided by mobile devices
- working with GDS to ensure that the new MOT testing service meets the Digital by Default Standard
- making our services more digital e.g. increasing on-line take-up

During 2015 to 2016 internal improvements were commenced for staff. This included:

- rollout of hardware and software to eliminate obsolete technology across the estate, and to provide staff with newer equipment to enable them to carry out their work
- installation of a new Wide Area Network with increased bandwidth to the estate
- continuing the roll out to staff of Office 365 which will provide a single e-mail address across the agency and integrated systems across the merged agency

Social media

We have 93,600 followers on twitter and 85,000 fans on facebook and we have continued to utilise social media to enhance our understanding of our customers and manage our broader social profile.

Delivering value for money

We planned to balance our costs against income and deliver at least a break-even performance for the year. This was achieved and exceeded together with greater efficiency savings to provide better value for money.

Performance measures

- as part of our strategy to reduce our overall estate to have marketed and/or sold 30 premises
✓35 sites marketed/sold. In addition, we have surrendered leases, terminated memoranda of terms of occupation or leases have expired in relation to a further six sites during 2015 to 2016.
- deliver financial performance of break-even position for the year
✓achieved a surplus of £12.0 million
- deliver efficiency savings of £9.0 million year
✓achieved efficiency savings of £12.0 million
- by March 2017 reduce by 10% the number of complaints not resolved at first contact compared with 2014 to 2015. To achieve this, less than 5.9% of complaints should be escalated to the second stage
✓5.5% of all complaints were escalated to 2nd stage
- payment of 80% of invoices within 5 working days
✓98% of invoices were paid within 5 working days
- provide a 93% response to freedom of information requests within 20 working days
✓98% of freedom of information requests were responded to within 20 working days

- provide a 100% response to parliamentary questions within due date
✓100% of parliamentary questions were responded to within due date
- provide a 100% response to parliamentary correspondence within 7 working days
✓100% of parliamentary correspondence was responded to within 7 working days
- provide a 80% response to official correspondence within 20 working days
✓99% of official correspondence was responded to within 20 working days

Estates rationalisation

During 2015 to 2016 we have continued to rationalise our operational estate and sought opportunities to improve the efficiency with which we occupy our administrative estate.

We have identified opportunities for sharing accommodation with other Government agencies which, if capitalised, will generate significant savings in the costs of running the estate.

Working within the proactive disposal programme, we have now ceased vehicle testing at a cumulative total of 56 goods vehicle testing sites (GVTS) and have subsequently sold 11 GVTS sites. Our activity in relation to cease testing and disposal of estate during the year has generated efficiency savings of £1.15 million.

During the coming year, we will continue to capitalise on opportunities for sharing accommodation with other Government agencies, which will generate further savings in the running costs of our estate.

Workforce management

Performance measures

- ensure the average number of working days lost due to sickness does not exceed 7 days
×10.86 days
- full time equivalent (FTE) staff numbers as at 31 March 2016 will be no more than 4,470
✓FTE as at 31 March was 4,393

Workforce

Full time equivalents (FTE)	March 2015 Plan	March 2015 Actual	March 2016 Plan	March 2016 Actual
Total	4,649	4,407	4, 470	4,393

Apprenticeships and student placements

We have developed a strategy to meet the Government's target of apprentice recruitment. This year 10 apprentices started their placements across the agency.

Attendance management

Although we missed the published measure we have continued with our initiatives to improve attendance including:

- appointing a board level champion
- establishing a steering group to further support the efforts of line managers, HR business partners and the casework team and work closely with the wider DfT group
- launching an early intervention pilot in February 2016 which initiates earlier first contact from the DfT advice team to support a line manager's action in absence cases, and to offer support and guidance

- reviewing the quality of absence data we have with the aim of improving it

Talent management and succession planning

All DVSA staff responsible for vehicle inspection now have the opportunity to gain a qualification recognised by both the Institute of the Motoring Industry and the Society of Operations Engineers through the Institute of Road Transport Engineers Certification called the Vehicle Inspection Programme Quality Assured Programme.

The agency has an ongoing First Line Management programme that encourages self-reflection and equips managers with tools and techniques to help them not only manage but to have the confidence to do so effectively.

Continuous improvement



The continuous improvement team reviews best practice across government and works with colleagues to ensure that training and support is available. Their aim is to provide requisite skills so that as many staff as possible can make improvements to services for internal or external customers.



Throughout 2015 to 2016 we have continued to encourage teams to use their knowledge and continuous improvement tools to improve ways of working.

Forward look

DVSA has agreed its business plan for 2016 to 2017 which can be found at: [DVSA business plan 2016 to 2017](#).

The following table summarises the priorities for DVSA for 2016 to 2017. It contains the performance measures agreed with the Minister.

Category	DVSA measure	2016 to 2017 objectives
Changing our agency 	Maintain or improve the take-up of digital services for: <ul style="list-style-type: none"> • practical test and theory test bookings • all other digital services 	96% 93%
	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
Our services 	Carry out targeted vehicle compliance checks	188,000
	Detect serious roadworthiness defects and traffic offences	20,418
	Honour DVSA confirmed reservations at Authorised Testing Facilities (ATF)	98%
	Reduce the annual average waiting time for car practical tests compared to 2015 to 2016	By 1 week
	Reduce the average waiting time for vocational tests to 3 weeks	By 31 July 2016

	To develop a strategy to improve how we tackle MOT fraud and establish a baseline for future monitoring and improvements	By 31 March 2017
	Offer candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date	95%
	Theory test candidates are satisfied with the overall level of service they've received	90%
Meeting customer needs 	Reduce the number of complaints not resolved at first contact compared with 2015 to 2016	By 10%
	Freedom of Information Act – provide a response within 20 working days	93%
	Parliamentary questions – provide a response by due date	100%
	Ministerial correspondence – provide a response within 7 working days	100%
	Official correspondence – provide a response within 20 working days	80%
Financial responsibilities 	Deliver a surplus	£1.3m
	Deliver efficiency savings	£17.4m
	By 31 March 2017 DVSA full time equivalents (FTEs) will be no more than	4,495
	Payment of invoices within 5 working days	80%
	To reduce the average number of working days lost (per FTE) due to sickness by 0.5 days against the 2015 to 2016 baseline and work towards the DfT target of not exceeding 7 days	By 31 March 2017

Financial review

Financial results

2015 to 2016 was a year of significant change for the agency, as we continued post-merger transformation. The agency has continued to prepare to migrate to a new single accounting system, to be operated in a shared services environment. Despite our efforts, the programme has been delayed due to factors outside our control leaving the agency operating with multiple legacy systems. As a consequence, we successfully implemented an upgrade to our Oracle accounting system to maintain the integrity of our financial systems.

The successful delivery of the new MOT computer system in September was a major milestone which ended the costly Private Finance Initiative (PFI) contract as well as providing a modernised web based platform. This will allow us to continue to improve functionality for the customer and provide savings going forward for future investment.

In the business plan for 2015 to 2016 one of our key financial objectives was to balance costs against our income and deliver a break-even performance for the first year. The agency made a retained surplus for the year of £12.0m (2014 to 2015 £7.9m).

Comparative figures for 2014 to 2015 have been derived from DSA and VOSA accounts and adjusted as if the two predecessor bodies had always been merged. The adjustments are explained in note 2 to the financial statements.

Income

DVSA has delivered a fee reduction of £2 per theory test during the year passing on efficiency savings to the learner, following the £6 per test reduction last year. Volumes of driver services, most notably driving tests, have increased during the year, and the net impact has been a 1.5% reduction in income to £381.6m (2014 to 2015: £387.5m). The increase in revenue from volume has been more than offset by the impact of the fee cut, reducing income overall. Other income has also reduced due to lower levels of grant funded activity.

Expenditure

Expenditure from operations has reduced by £11.7m to £354.4m (2014 to 2015: £366.1m), which is a 3.2% reduction. This is due mainly to two factors:

- **Impairments** - DVSA has incurred overall lower impairment charges during the year of £16.2m (2014 to 2015: £32.4m) relating primarily to IT software development, and in the previous year to the rationalisation of the heavy vehicle testing estate. These charges are one-off in nature and the reduction has contributed £19.4m to the year-on-year performance. For further information, see note 2. In addition, the decision to value GVTs at market value has reduced the in-year charge
- **Business transformation** - there have been significant changes to the underlying cost base as the organisation continues to transform, in particular the launch of the new MOT computer system which has delivered an in-year saving of £2.6m

Cost pressures have generally been contained but pressures will continue particularly in estates and in outsourced services, where VAT is not always recoverable.

- **Irrecoverable VAT** - The driver theory test is primarily an outsourced service, and the cost has increased by £6.6m due to increased volume, and the HM Treasury ruling that VAT can no longer be deemed recoverable on that outsourced service contract (initiated from 13 December 2014). This is under discussion with HM Treasury

Capital

We continued to make substantial investments to upgrade our legacy IT systems and our estate, entirely funded from internal cash resources. Capital expenditure amounted to £47.3m (2014 to 2015: £33.4m) which has significantly increased due to modernising IT and delivering customer centric solutions, in particular. We expect substantial capital expenditure to continue for a number of years as IT modernisation continues. For example, DVSA expects to implement an improved operator licensing system in 2016 to 2017 and continues to make improvements to the MOT system.

We have also continued our path of reducing our loans with £30.8m of loans being repaid in year. Gearing, defined as the ratio of loans to total taxpayers' equity, has reduced to 9.8% (2014 to 2015: 31.1%).

Sustainability report

The sustainability report below describes DVSA's performance against the Greening Government Commitments¹ and is produced in line with HM Treasury sustainability reporting guidance². The report includes a range of environmental performance indicators and information presented to show our performance for the last three years against the 2009 to 2010 baseline (the beginning of the Greening Government Commitments). All data refers to the whole estate unless otherwise indicated.

Overview and highlights

DVSA is committed to the development of a sustainable business model focused on continuous improvement of environmental performance and the prevention of pollution.

The table below shows DVSA's performance against the Greening Government Commitment targets:

Indicator	Baseline	Target	Achievement	
Greenhouse gas emissions (tCO ₂ (e))	15,748	11,811	9,864	37%
Number of domestic flights	2,742	2,057	1,339	51%
Water use (m ³)	61,502	46,127	72,867	-18%
Water use (m ³ per FTE)	9.3	6	10	N/A
Waste arising (tonnes)	1,887	1,415	1,184	37%
Paper (A4 reams)	40,772	36,695	24,236	41%

Greenhouse gas emissions

We have made a significant saving on Greenhouse gas emissions this year. This is due to several factors, such as:

- increasing the carbon efficiency of our fleet
- reducing travel by 2.9 million kilometres
- taking around 230 less flights than in 2014 to 2015
- continuing to see very significant savings from the closure of testing stations and the increase in testing at third party Authorised Testing Facility (ATF) sites
- using scheduling tools for the ATFs where we are seeing a reduction in travel through efficiencies in journey planning
- encouraging staff to travel less for meetings by making use of updated facilities for telephone conferencing

Scope 1³ (Gas, oil, fugitive emissions and owned fleet vehicles)

Gas, oil and liquid petroleum gas (LPG) used for heating is the 3rd largest source of greenhouse gas emissions for DVSA. It accounts for 21% of our carbon emissions. We have seen an increase in gas consumption this year, but the impact of this has been minimised due to savings from other energy use. More work will be done to improve heating controls at our sites in 2016 to 2017.

We have improved the range of data available to us and we are now able to report carbon emissions that derive from fugitive emissions produced by air conditioning. The higher Global Warming Potential of these emissions means we need to carefully monitor and manage them. From 2016 to 2017 onwards, we will seek specialist advice on the

¹ <https://www.gov.uk/government/publications/greening-government-commitments-targets>

² <https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance-2015-to-2016>

³ Scope 1 refers to direct emissions that are owned or controlled by an organisation, for example emissions from combustion of gas in a boiler, or from fuel used in an owned or leased fleet vehicle

management of existing air-conditioning systems and promote the use of sustainable alternative technologies at our sites.

Our fleet vehicles account for 34% of all kilometres travelled and 34% of our carbon emissions from road travel. This has resulted in improved carbon emissions where grey fleet vehicles are no longer being used. The fleet vehicles we use are becoming more carbon efficient as older vehicles are replaced – all new vehicles produce 110g CO₂e per kilometre or less, compared to up to typical emissions of 194g CO₂e per kilometre in the 2009 to 2010 baseline year.

Scope 2 (and 3)¹ (electricity – generation, transmission and distribution)

Electricity (combined scope 2 and scope 3) is the single largest source of greenhouse gas emissions for the DVSA. It accounts for over 40% of our carbon emissions and is therefore considered a significant aspect. In 2015 to 2016, we have seen a decrease in purchased electricity consumption. This is largely due to the transfer of vehicle testing from GVTS sites to 3rd party ATF sites, and the closure of sites due to estates rationalisation.

In 2016 to 2017, we will maintain our programme of estates rationalisation. We will continue to monitor performance and work collaboratively across the organisation and with our service providers to improve energy consumption across the estate.

Scope 3² (air, rail, hire cars, grey fleet)

Business travel from air, rail, hire cars and grey fleet accounts for 25% of all greenhouse gas emissions for DVSA. Grey fleet now accounts for only 43% of carbon emissions from road travel compared to 56% in the 2009 to 2010 baseline year. In 2016 to 2017 we will continue to promote the reduction in grey fleet journeys by encouraging staff to use lower emission hire cars and fleet vehicles.

Water

Our water consumption has increased by 33% compared to 2014 to 2015 and we have missed our target to maintain or improve on the Government Greening Commitment by the same figure. As a result, we have appointed a Utilities Bureau Service Provider to improve our monitoring of water consumption, reduce billing inconsistencies where we have historic estimated readings, improve leak detection and speed up reactive works.

We will see significant reductions in water consumption in 2016 to 2017 as a result of our estates rationalisation programme. We will also continue to develop our programme to modernise water services at sites and improve staff engagement to tackle high water consumption.

Paper

We continue to make significant reductions on our paper use across the organisation – we used 18% less paper in 2015 to 2016 compared to 2014 to 2015, adding to the already significant improvements on paper use since 2009 to 2010. We have implemented improvements to printing facilities, including default double sided printing and using PIN to print, to contribute to our paper savings. We are also using and promoting paperless procurement procedures, allowing DVSA to issue tender documents electronically.

We will see further improvements in 2016 to 2017 linked to our Digital Services and Technology Strategy, with plans for continuous improvement of high volume public and business facing digital services such as practical driving test bookings and recording periodic training for Driver CPC.

¹ Scope 2 refers to indirect emissions from energy used, but not owned or controlled by, an organisation, for example purchased electricity, heat or steam. The scope 3 emissions relating to the transmission and distribution of electricity have been included here due to the immediate link with the purchased electricity

² Scope 3 refers to emissions resulting from an activity or service used, but not owned or controlled by, an organisation, including purchase of goods and services, and business travel by air, rail, hire car or privately owned vehicle (grey fleet)

Waste and recycling

We have made further improvements to the overall amount of waste we produce, saving 37% compared to the baseline year. We sent 79% of all waste to landfill and 21% was either recycled or sent for anaerobic digestion (food waste).

We will continue to improve the quality of our waste data in 2016 to 2017 by undertaking an estate-wide waste audit. This will be our first step on the road to achieving the new Government Greening Commitment target of 10% landfill by 2020.

Biodiversity

DVSA is committed to conserving and enhancing biodiversity across its estate. We recognise the value that ecosystem services provide and aim to enhance these wherever possible.

We have improved planting schemes at a number of sites including the Berkeley House HQ site in Bristol and a 'conservation area' at our training centre in Cardington.

We are making further commitments in our 2015 to 2020 Sustainability Strategy including development of a holistic biodiversity strategy for the DVSA Estate. We will continue to implement the DEFRA Pollination Strategy and Climate Change Adaptation Planning Strategy as part of our capital works programme.

Sustainable procurement

We are completing construction of a new High Risk Traffic Initiative site in Ashford using BREEAM¹ design standards, in compliance with the Cabinet Office Property Controls.

Across the rest of DVSA we continue to improve oversight of sustainable procurement principles and promote use of Sustainability Impact Assessments in DVSA projects. In 2016 to 2017 we will continue to support and promote the Department for Transport Sustainable Procurement Strategy within the organisation, including compliance with all Government Buying Standards² to improve sustainable development in procurement across DVSA.

GREENHOUSE GAS EMISSIONS			Baseline year (2009 to 2010)	2013 to 2014	2014 to 2015	2015 to 2016
Non-financial indicators (tCO ₂ e)	Scope 1	Natural gas, LPG, Oil, Fugitive Emissions (from Air Conditioning)* and Business Travel: Owned fleet vehicles	4,323	3,462	3,246	3,275
	Scope 2 (and 3)	Electricity, transmission and distribution (Scope 2 and 3)	7,064	5,113	4,664	4,113
	Scope 3	Business travel: Grey fleet, Hire, Taxi, Flights and Rail (Scope 3)	4,361	3,164	3,130	2,476
	Total emissions tCO ₂ e		15,748	11,739	11,040	9,864
Target (tCO ₂ e)	Maintain or improve on 2014-15 saving by 2016		15,748	12,598	11,811	11,040
Financial indicators (£)	Energy gross expenditure		2,340,437	1,915,629	1,877,495	1,671,517

¹ <http://www.breeam.com/>

² <https://www.gov.uk/government/collections/sustainable-procurement-the-government-buying-standards-gbs>

	Business travel gross expenditure	7,412,195	7,292,134	8,254,090	7,849,640
	Total gross expenditure	9,752,632	9,207,763	10,131,585	9,521,157

COMMENTS ON SCOPE

Scope 1 and Scope 2 emissions - Fugitive emissions are included in the report from 2015 to 2016 only and the data is gathered using servicing reports from our TFM provider, as well as data provided where any systems are installed or upgraded. Owned fleet emissions are calculated using data using vehicle log sheets. All electricity, gas, LPG and oil derived emissions are reported where DVSA occupies a site and is responsible for the energy consumption, including leased sites.

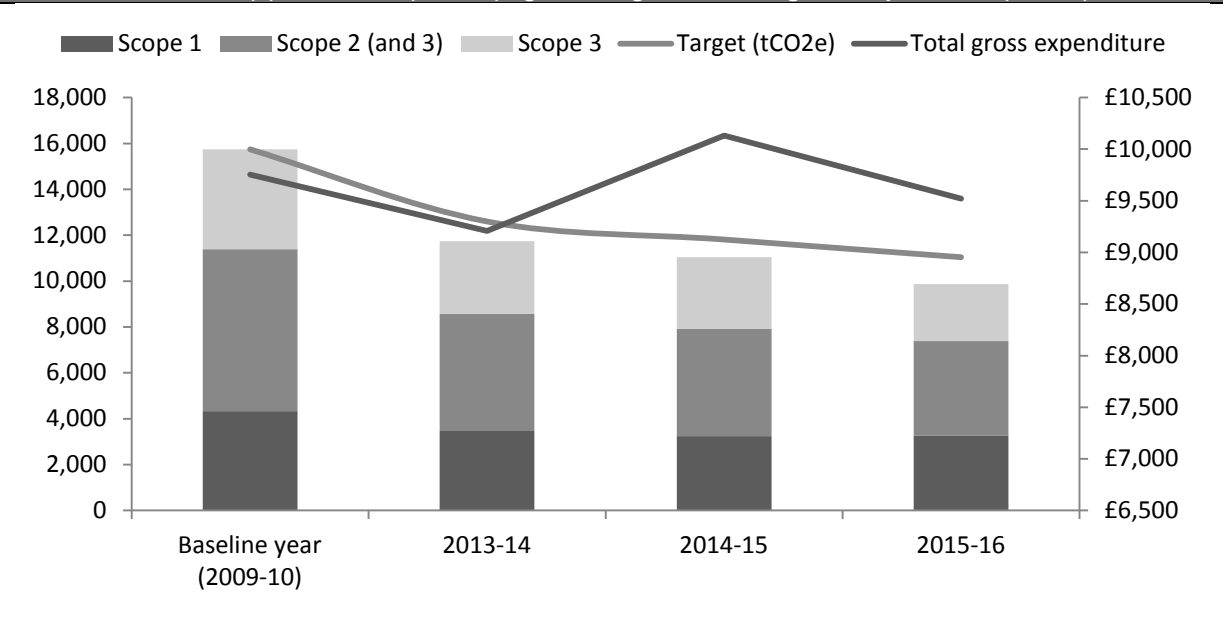
Purchased electricity supplies include scope 3 emissions from transmission and distribution of electricity.

The financial and non-financial data for energy is based on the same invoicing data. LPG has been monitored from 2010 to 2011 and therefore the baseline year was estimated using the nearest data.

Scope 3 - Emissions derived from business travel (grey fleet, hire, taxis, flights and rail) are based on travel and subsistence data, together with ticket purchase data gathered from our financial systems. Emissions derived from hire cars are calculated using management information data from our hire car supplier.

Gross expenditure on energy also includes a CRC payment of £80,354 for 2015 to 2016.

Total CO2(e) emissions (tonnes) against target and Total gross expenditure (£000's)



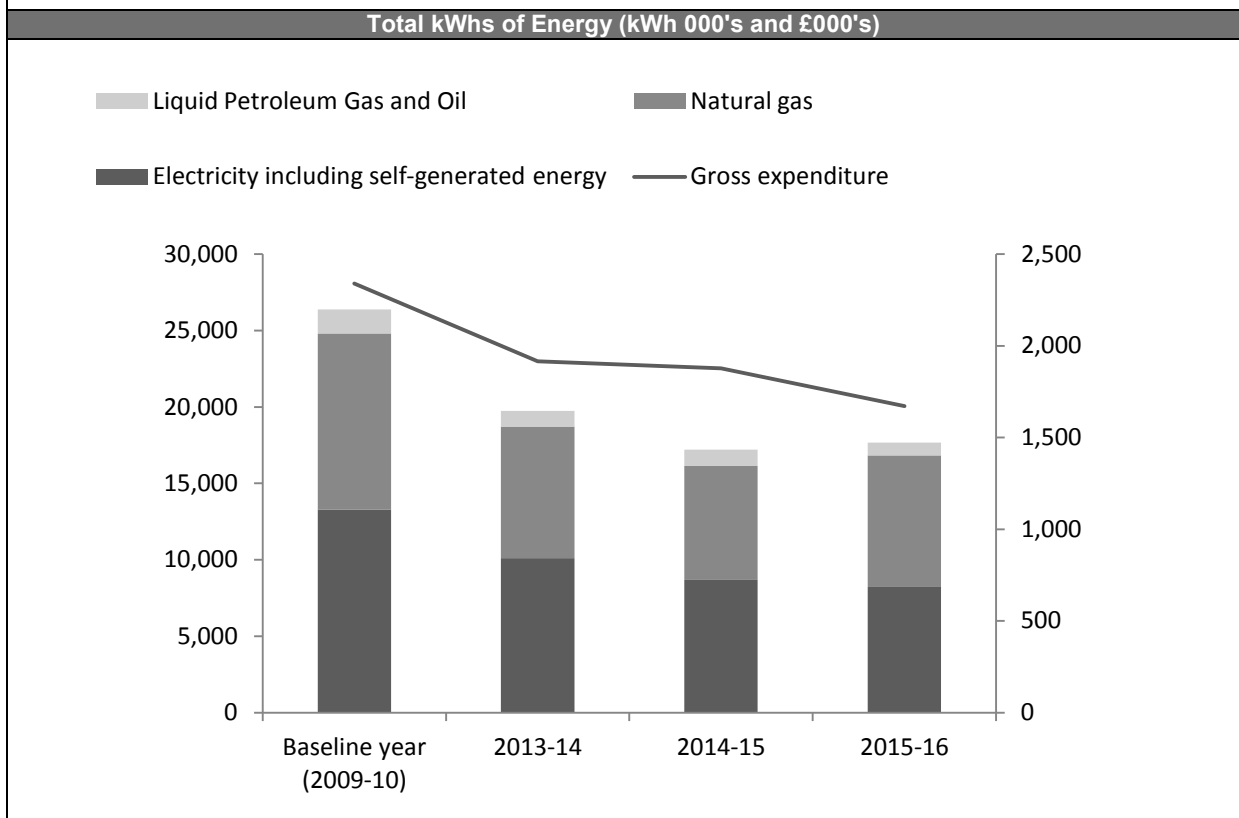
FINITE RESOURCE - ENERGY		Baseline year (2009 to 2010)	2013 to 2014	2014 to 2015	2015 to 2016
Non financial indicators (kWh)	Electricity including self-generated energy	13,282,224	10,112,085	8,683,712	8,226,952
	Natural gas	11,538,507	8,605,721	7,452,249	8,609,873
	Liquid Petroleum Gas and Oil	1,557,500	1,028,954	1,062,814	831,220
Financial indicators (£)	Gross expenditure	2,340,437	1,915,629	1,877,495	1,671,517

COMMENTS ON SCOPE

Energy consumption figures include all electricity, gas, LPG and oil consumption where DVSA occupies a site and is responsible for the energy consumption, including leased sites. Emissions data is not reported for self-generated (renewable) energy, which is derived from solar photovoltaic panels and wind turbines.

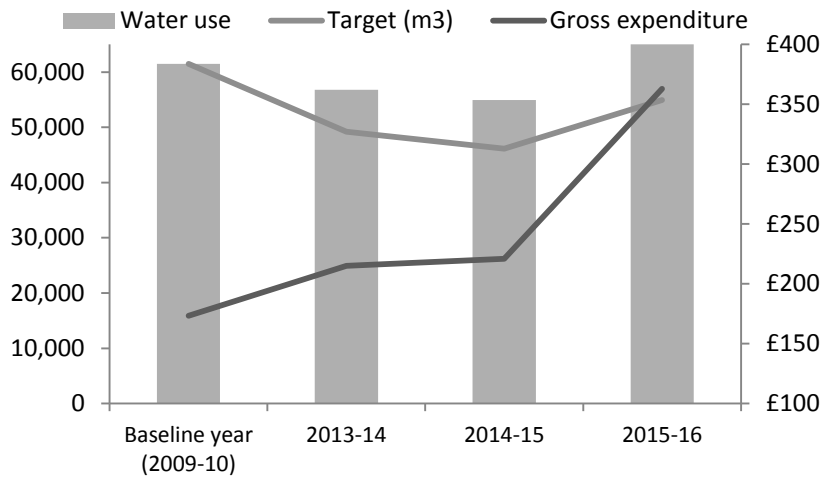
From 2015 to 2016 all Crown Commercial Service framework purchased half hourly electricity supplies were derived from 10 per cent renewable sources. The financial and non-financial data is based on the same invoicing

data. LPG has been monitored from 2010 to 2011 and therefore the baseline year was estimated using the nearest data.



FINITE RESOURCE - WATER		Baseline year (2009-10)	2013 to 2014	2014 to 2015	2015 to 2016
Non financial indicators (m ³)	Water use	61,502	56,795	54,949	72,867
Target (m ³)	Maintain or improve on 2014-15 saving by 2016	61,502	49,202	46,127	54,949
Financial indicators (£)	Gross expenditure	173,207	214,901	220,851	362,930
Comments on scope					
The financial and non-financial data up to 2012-13 are based on supplied quantity alone. The change to include the gross cost (to include infrastructure charges) is the cause for increase in expenditure since 2013 to 2014.					

Total Water Use (m3 and Gross expenditure £000's)

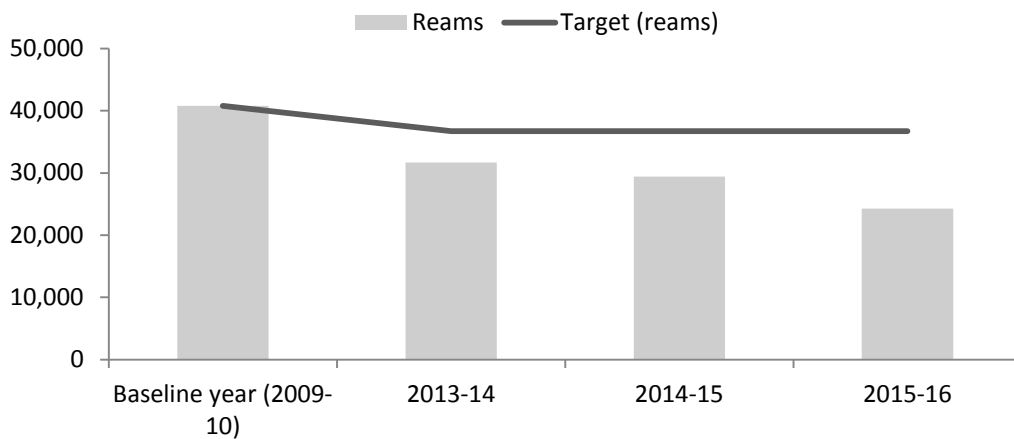


PAPER		Baseline year (2009-10)	2013 to 2014	2014 to 2015	2015 to 2016
Non-financial indicators (reams)	Reams of A4 paper	40,772	31,685	29,421	24,252
Target (reams)	Maintain or improve on 10% 2011-12 saving by 2016	40,772	36,695	36,695	36,695

Comments on scope

Data on paper is derived from Management Information from the Crown Commercial Service Office Supplies provider, and is based on paper purchased under the framework. Financial data is not available.

Total paper use (reams of A4 paper)



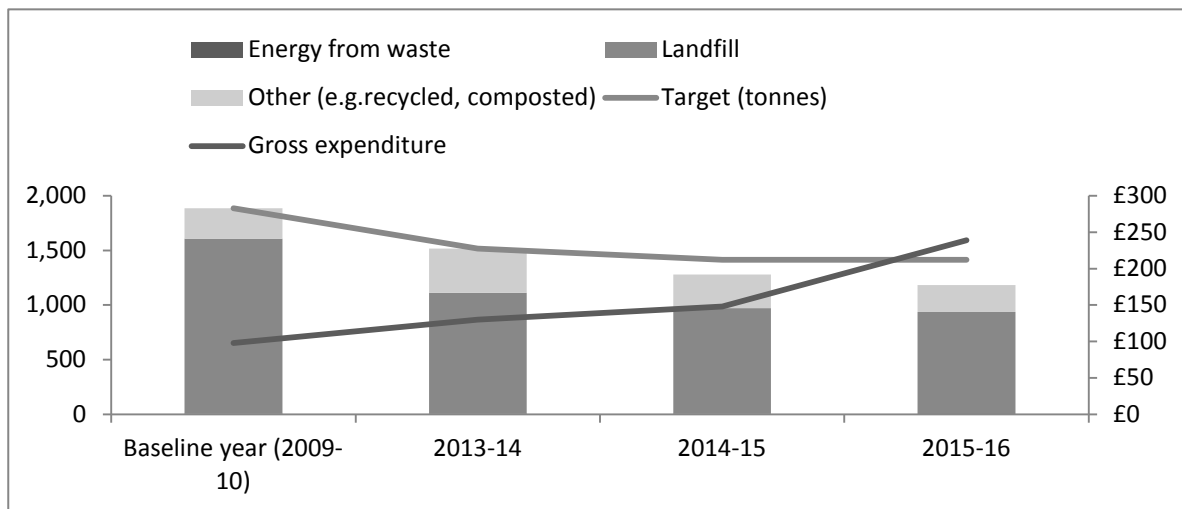
WASTE ARISING		Baseline year (2009 to 2010)	2013 to 2014	2014 to 2015	2015 to 2016
Non financial indicators (tonnes)	Landfill	1,599	1,107	966	933
	Energy from waste	9	7	7	3
	Other (e.g. recycled, composted)	280	402	306	248

	Total waste arising	1,887	1,516	1,279	1,184
Target (tonnes)	Maintain or improve on 2014-15 saving by 2016	1,887	1,516	1,415	1,415
Financial indicators (£)	Gross expenditure	98,000	130,000	148,000	238,735

Comments on scope

Our waste data covers general office waste from our main admin and training sites and some GVTs sites. We also gather food waste data from some sites. We do not yet have full waste data for the wider Estate. However, we are planning to carry out a waste audit in 2016 to 2017 to enable us to accurately measure and monitor waste across the whole DVSA Estate. These figures do not cover waste from one-off disposals, such as refurbishments and site closures. Financial data is not available for sites covered by the Total Facilities Management contract for their waste management services. This expenditure also includes the cost of all Licences for waste disposal. No financial data is available for Driver Services sites, pre- 2015 to 2016.

Total waste (tonnes) and Gross expenditure (£000's)



Chief Executive and Accounting Officer
16 June 2016

Accountability Report

Directors' Report¹

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 2015 to 2016. It should be read in conjunction with the Governance Statement, the Remuneration and Staff Report and the Performance Report.

Members of the Board

Full disclosure of the serving directors for 2015 to 2016 is available in the Governance Statement.

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

Any security incidents relating to personal data are reported to a dedicated 'Security Issues' mailbox in accordance with a documented process which is published on the intranet and is available to all staff. Both the Information Assurance team and the Data Protection team will automatically receive a copy of the email reporting the incident and take the appropriate action. All issues are logged and where it is appropriate to do so, further investigated to establish a root cause and identify any lessons learned. Breaches of the Data Protection Act are reported to the DP officer at DfT(c) and where necessary to the Information Commissioner's Office.

Statement of Accounting Officer's Responsibilities

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed DVSA to prepare for each financial year, a statement of accounts in the form and on the basis set out in the accounts direction and as stipulated in Dear Accounting Officer letter [DAO (GEN) 03/15]. 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 2016 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 financial statements
- prepare the financial statements 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

¹ The Directors' Report, Statement of Accounting Officer's Responsibilities and Governance Statement are the constituent parts of the Governance Report within FReM guidance.

the Accounting Officers' Memorandum, issued by the Treasury and published in Managing Public Money¹ (the Stationery Office Limited).

I confirm that the annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Auditor

The Comptroller and Auditor General, as Head of the National Audit Office (NAO), is the appointed auditor for DVSA. The audit work for the 2015 to 2016 accounts cost £105,000 (2014 to 2015: DSA and VOSA combined was £150,000). The NAO did not receive any remuneration for non-audit related work.

KPMG was subcontracted by NAO to undertake the audit of these accounts. DVSA separately contracted KPMG to evaluate the new system put in place to manage MOT at a cost of £243,000. There is not deemed to be a conflict of interest as this work was undertaken by a separate team to the audit team.

Disclosure of audit information to DVSA's auditors

As far as the Accounting Officer is aware:

- there is no relevant audit information of which DVSA's auditors are unaware
- he has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that DVSA's auditors are aware of that information.

Governance Statement

Accounting Officer's Introduction

To allow me to discharge my role for the DVSA Trading Fund Annual Report and Accounts, this Governance Statement outlines the approach taken to deliver effective corporate governance for the agency in 2015 to 2016. DVSA was formally launched on 2 April 2014 and a new 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, Managing Public Money and the Financial Reporting Manual. I have provided details below of how DVSA's system of corporate governance operated during 2015 to 2016, including any areas where the system has not operated in line with the Code.

Governance Framework

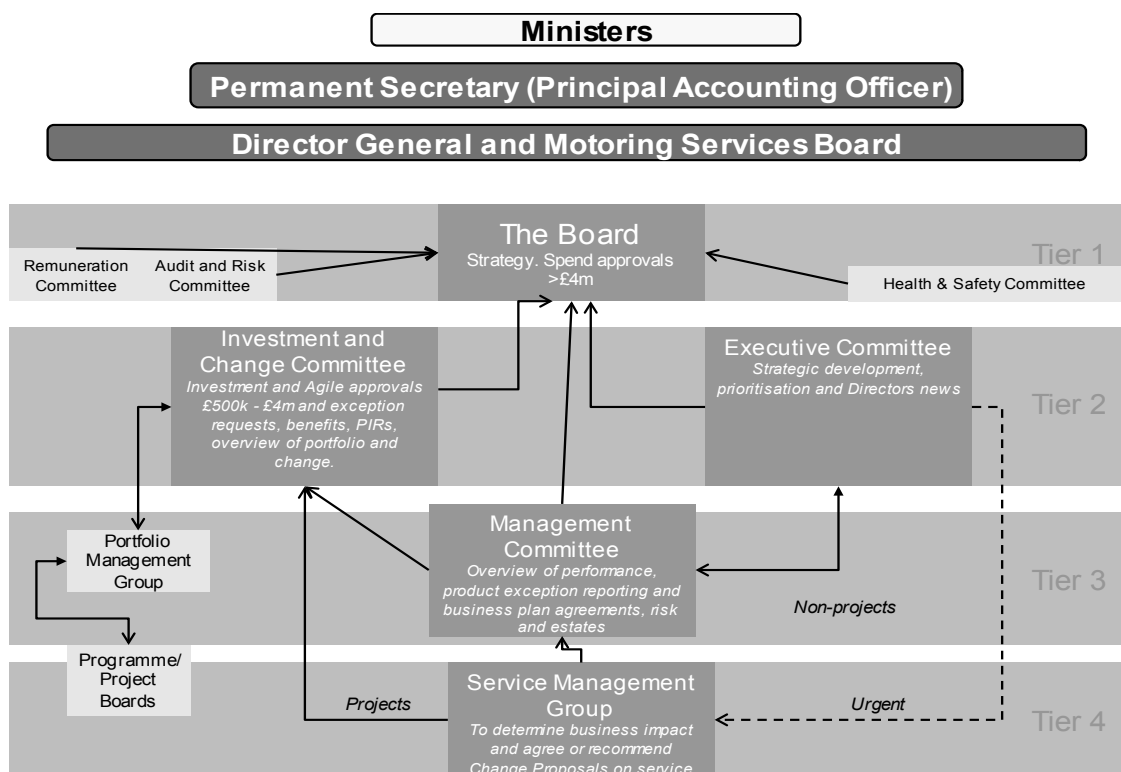
As an executive agency of DfT, DVSA follows the arrangements set out in the Department's Framework document. This framework identifies how its corporate leadership is organised, how decisions are made, how finances are controlled and how performance and risk are monitored and managed in compliance with the: *Corporate governance in central government departments - Code of good practice*².

¹ <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-Departments>

² <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-Departments>

DVSA's annual business plan was submitted to the Minister for endorsement of the key performance measures at the beginning of the year and regular progress reporting to the Director General of Roads, Devolution & Motoring via the Motoring Services Board has taken place.

DVSA Corporate Governance Framework (from October 2015)



Board and committee activities

	DVSA Board	Audit & Risk Committee (A&RC)	Health & Safety Committee	Executive Committee	Investment & Change Committee (ICC)	Management Committee
Chair	The Chief Executive	A Non-Executive Director	The Director responsible for Employee Wellbeing	The Chief Executive	The Finance & Corporate Services Director	Head of Strategy, Planning and Performance
Purpose	To provide leadership for DVSA by setting strategic direction and maintaining a framework of prudent and effective controls which enable risk to be assessed and managed and allowing the Chief	The Board has established an A&RC, as a committee of the Board, to advise and support them in their responsibilities for issues of risk control and governance. The A&RC reviews the comprehensiveness of assurance systems and processes in	The Board has established a Health & Safety Committee, as a committee of the Board, and in accordance with Health and Safety Executive guidance to support and advise the Board on matters of health and safety policy, structure and communication, reviewing these	The Executive Committee has been delegated authority by the Board to develop strategy, set priorities and agree policy.	The Investment and Change Committee has been given delegation to appraise and approve investment decisions and contracts \geq £500,000 and $<$ £4m and will make recommendations to the Board on items $>$ £4m. The ICC governs the development of change proposals to deliver DVSA's business plans and	The Management Committee has been delegated authority by the Board to ensure operational, directorate and scheme management activity is delivering to DVSA's business plan and that performance targets are being met.

	DVSA Board	Audit & Risk Committee (A&RC)	Health & Safety Committee	Executive Committee	Investment & Change Committee (ICC)	Management Committee
	Executive Officer / Accounting Officer to effectively discharge his role.	place to meet the Board's needs and reviews the reliability and integrity of these assurances, providing advice where applicable.	against legal obligations.		ensures that change is properly sequenced. In addition the ICC is responsible for the scrutiny of contracts through procurement assurance. The ICC also scrutinises DVSA's project and portfolio activity to ensure delivery and benefit realisation.	

2015 to 2016 Board & Committee Director attendance

	DVSA Board		Audit & Risk Committee		Health & Safety Committee		Investment & Change Committee	
	No. of meetings attended	No. of eligible meetings	attended	eligible	attended	eligible	attended	eligible
Gareth Llewellyn - Chief Executive Officer (from 1 April 2016)								
Alastair Peoples - Chief Executive Officer (until October 2015)	8	8	3	3				
Paul Satoor - Acting Chief Executive Officer (from October 2015 to 31 March 2016)	6	6	3	3	3	3		
Paul Satoor - Director of Organisational Development & Strategy (until September 2015)	7	8			1	1		
Rachel Campbell - Acting Director of Organisational Development & HR (from September 2015)	6	6			1	2		1
Paul Coombs - Director of Finance & Corporate Services (until October 2015)	6	8	4	4			11	11
Nick Graham - Interim Director of Finance & Corporate Services (from October 2015)	6	6	2	2			6	6
Kevin Kidman - Interim Director of Operations (from October 2015)	6	6			1	1		
James Munson - Director of Digital	12	14						

	DVSA Board		Audit & Risk Committee		Health & Safety Committee		Investment & Change Committee	
Services & Technology								
Adrian Long - Director of Policy & Stakeholder Management	13	14						
Paul Smith - Non Executive Director (until June 2015)	1	2	2	2				
Graham Pendlebury - DfT Nominee			6	6				
Geraldine Terry NED - Lead Non Executive Director	11	14	4	6				
Shrinivas Honap - Non Executive Director (from June 2015)	12	12	5	5			11	12
Fiona Ross - Non Executive Director	11	14	5	6			4	5

The remuneration committee did not meet this year as negotiations were carried out as part of the DfT Modernising Employment Contract.

The committee of Executive Directors met on a weekly basis.

The Governance Culture

DVSA recognises the role organisational culture plays in ensuring effective corporate governance. As Civil Servants, staff are bound by the Civil Service Code and adherence to the Nolan 7 Principles of Public Life. DVSA operates a staff led scheme to recognise and celebrate staff who demonstrate the unity, integrity, understanding, excellent expertise and responsibility associated with a positive work place and customer experience.

At the start of each meeting, the respective Chair of DVSA's Board and each of its committees asks members to declare any conflicts of interest. The Board and each committee or subcommittee evaluates the meeting's structure, content and presentation to facilitate informed decision making. Membership of committees was updated in year to ensure executive lead and agency working was facilitated whilst maintaining good governance for the Trading Fund. The Non-Executive Directors (NEDs) continue to provide the independent advice and external assurance required. As well as the assessment taken as part of every Board meeting, an annual assessment of the Board was carried out by the NEDs.

Non-Executive directors' statement

During 2015 to 2016, the NEDs have been involved in both Board and major committee discussions and decisions. Based on this exposure to the organisation, 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.

The DVSA Board has continued to function reasonably effectively and thorough discussion and challenge is provided by Executive and NEDs for each decision. The Board's functioning continued to be challenging this year due to a number of roles being filled on an interim basis. As in the previous period, this has required significant effort on the part of the Executive Directors of the Board to ensure that the agency continues to deliver its operating objectives.

Board evaluation occurs at the end of each Board meeting by a combination of selected Director and/or attendee where they provide feedback on the effectiveness of the meeting which helps identify areas for improvement. During the year a Board evaluation survey was conducted and its outcomes and recommendations (to define the agency's mission and vision; to develop a set of objectives and behaviours for the Board and its effectiveness; and finally to ensure the Framework Document is updated) were submitted and approved for action. The DVSA Board is fully constituted and its terms of reference include the requirement for an annual assessment.

In terms of concerns there is a need for clarity on the delivery of shared services. The current lack of delivery is affecting the agency's ability to deliver merger benefits specifically within finance as well as the ability to implement workforce planning. The latter has significant customer impact.

The agency:

- needs to improve its succession planning especially where this related to Board level recruitment
- has moved considerably in terms of the development of its IT strategy and modernising its customer based applications but will continue to face shortages in skilled labour in order to deliver this strategy
- needs to significantly improve its controls regarding the delivery of major capital programmes – specifically the early identification of the risk of non-delivery
- suffers from significant levels of staff disengagement and the Board recognises that this is a priority for the senior team to address the issues raised

Whilst the agency has made progress during the year it needs to address fully the concerns raised which will allow risk mitigation and a further improvement in operational performance to the levels that its customers expect.

Risk Management

DVSA Directors recognise that innovation and opportunities to improve services requires taking some risks. The agency applies HM Treasury guidance with the aim of managing risk to a reasonable level rather than to attempt to eliminate all risk of achieving its objectives. The DfT risk policy and strategy is used to identify and manage risks that could affect the delivery of our services, finances or reputation. Risk management is an integral part of governance for operational services and the change programme. The Corporate Assurance and Governance Manager oversees the risk management process, provides specialist advice and attends the A&RC.

DVSA continued activities that will allow the full benefits of the merger to be realised. During this period the Board recognised the need for flexibility to deliver challenging aims and maintained the appetite to risk taking as 'open'. That is to say, willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward. Risks have been considered on a case by case basis, with each risk assessed on its own merit after consideration of costs, benefits and impacts of potential mitigations and taking into account wider cumulative risk exposures.

Risk appetite by activity type is as follows:

- Future demands for services - the Board has agreed an open risk appetite, as it is willing to consider all options and choose the one(s) most likely to result in successful delivery while also providing an acceptable level of reward
- Diversity, equality and inclusion - high on the Board's agenda is taking an innovative approach to equality diversity and inclusion, all of which can demonstrably improve delivery of our core services, but there is more to be done to attract and retain the right staff, so an open risk appetite has been set in this area.

- Operational Services – the Board wants to make sure that DVSA remains effective, efficient and legally compliant, in the delivery of its core operational services which contribute to road safety. This is facilitated through engaging with stakeholders and partners, as well as ensuring good governance, regularity and propriety. For these areas the Board has a cautious appetite; preferring safe options that have a low degree of residual risk
- Information management and cyber security – the Board encourages innovation and taking advantage of technological opportunities in this area and so, in general, has chosen a cautious appetite. As an exception, the Board particularly wants to make sure that DVSA has the controls in place to protect the bulk data it holds and maintains access to the systems it uses. For these areas of information management, a minimalist appetite has been set, demonstrating a preference for ultra-safe options that have a low degree of inherent risk
- Health and safety for staff and customers is a priority, particularly as staff work in a wide variety of environments across the country. As such, the Board has set a minimalist corporate appetite for risk in this area

DVSA continues to both develop its risk management processes for all risks and to work on controls particularly around project, procurement and contract management. In this respect the agency has been fully engaged with DfT's centres of excellence for their advice and monitoring of our processes and performance. In year we have acted on reports and findings from the Major Projects Authority, project lessons learned reports and applied the DfT Procurement Assurance process. DVSA has sought to implement lessons learned and recommendations from contracts and projects, including changes to programme and project control processes.

However, these risk areas continue to challenge and exercise the agency at board level. The Board intends to ensure that processes, procedures and culture are regularly reviewed to allow for the early identification of risk especially on major capital programs and the safe delivery of services. DVSA will ensure that these risks receive appropriate Board attention. For example, during the period the organisation continued an initiative to deliver a new mobile communications platform. Unfortunately, it was recognised that this would not deliver the benefits that were expected and the project is undergoing significant review and re-planning. The risk of non-delivery was not identified through a formal mechanism but it was recognised and then appropriate steps were taken to identify the magnitude and value of the risk. On the other hand, a new national MOT system was successfully delivered to over 22,700 garages, with improvements in customer facing applications whilst securing significant savings in running costs and it will be further developed to facilitate continual improvements for the customer.

Other key areas of risk that have been managed through DVSA's corporate risk register processes this year have been:

- **Shared services** - Migration to the shared services platform is governed through a DVSA Project board which maintains good communications with the associated DfT Programme board. A singular platform would allow the agency to share a number of corporate functions. DVSA has been ready to commence the move to shared services and during 2015 to 2016 the agency prepared data, processes and validated systems. The agency has worked closely with the supplier in monitoring the milestones on the critical path. The Board has looked both at the risk associated with ensuring the benefits of implementation are realised and the risk associated with managing two accounting and workforce planning systems side by side. Mitigations for both risks have been discussed and implemented through the year including review of year end accounting processes with external audit. DfT has undertaken contract renegotiations to identify a realistic solution for the DfT family. With the agreement of the Board, DVSA will now migrate onto a build within the existing SAP system. It means DVSA can migrate onto a single shared platform; aligning back office functions and giving a single self-service

portal. It's also a fresh opportunity to review processes, use of the current SAP solution, and make sure it is working in the most efficient and effective way

- **Practical driving test waiting times** - DVSA faced a particular challenge with its ability to meet the waiting times for practical driving tests as a result of a number of contributing factors including: delayed implementation of DfT Modernised Employment Contract reforms; industrial action in late Autumn; the continued challenge in recruiting driving examiners; and, a less than adequate workforce planning systems – one of the corporate functions where development is reliant, to an extent, upon the shared services platform
- **Theory test provision** - The delivery of the theory test is a fundamental service provided by DVSA. Directors have maintained regular in-depth discussions with NEDs and DfT for the Transition Project. The project team, with the incoming supplier, developed a joint risk register and established prioritised work streams and the Board monitored progress. Since the award of the original contract in 2013, demand for the test has increased by over 50 per cent to 2.4m (2015-16), and is now forecast to reach 2.8m in 2017-18. Against that background, and because continuity of service is of primary importance, it was decided to close this project and the current supplier will therefore continue to provide the service for some time. DVSA has therefore extended the agreement with the current provider of the theory test. This extension allows time to conduct a thorough review and explore options for alternative delivery models

Other Explicit Reviews/Assurance Mechanisms

There are a number of internal control processes which provided a framework for managers and staff to successfully and efficiently deliver DVSA's objectives. The A&RC oversees the controls in place through scrutiny of the Management Assurance Statement returns from Directors to the Board and DfT.

This includes assurance controls in place through:

Internal audit - DVSA HIA Opinion 2016 to 2017 Internal Audit operating to the standards defined in the Public Sector Internal Audit Standards, the Government Internal Audit Agency provided a qualified audit team to complete a programme of audits. The audit programme differed from previous years in that there was a greater focus on the transformational projects in the agency and an increased coverage over high level risks.

During the year the Board and Non-Executive Directors has overseen the identification and quantifying of risks and issues within the organisation. The interim Chief Executive has led a number of initiatives around staff engagement and cultural differences following the merger. The Board has also shown its ability to respond to and manage incidents with the maintenance of a level of service through the period of industrial action.

However, there were significant control weaknesses, and material losses, over the delivery of major projects compromising service delivery and integrity of key services, as well as issues with the management of current contracts and lack of tested business continuity arrangements.

Looking forward the Board had identified, and has committed to taking appropriate action against, a number of major challenges which have served to increase the risk profile of the organisation.

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 2015-16 is assessed at 'Limited'. There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.

Management assurance - DVSA's Executive Directors complete two management assurance statements a year to assess the full range of delegations, policies and procedures laid down by the DVSA and DfT, the adequacy of these arrangements and what remedial action is being taken where improvement is needed. These mid and end of year returns are a key part of the governance framework and the results of both are also reported into the DfT Group Audit Committee, which views the twice a year activity as a primary source of assurance of governance across the Department and its arm's length bodies. These reports are considered by the A&RC which assists me as Accounting Officer in the assurance of matters of internal control. For 2015 to 2016, the agency response to DfT provides evidence to support moderate or substantial assurance in all matters except one: *Fraud and bribery, which scored a Limited Assurance. Whilst work is ongoing it has not taken enough effect to change the assurance rating within year, tasks to be finalised are:*

- 1) *updating the DVSA counter fraud strategy and associated fraud and bribery policies;*
- 2) *cascading, when complete, the fraud training/activity packages for the wider business;*
- 3) *working with colleagues to ensure the agency's counter fraud approach supports the right balance of preventative, punitive and training needs.*

Fraud and bribery - DVSA is committed to protecting the integrity of the driving and vehicle testing services provided to the public and industry. Fraud and bribery related matters are taken seriously and DVSA manages the risks of both internal and external fraud and bribery - reports of any such instances are fully investigated. The A&RC terms of reference enable it to gain assurance that an appropriate fraud strategy exists and an updated strategy was agreed by the Board. Fraud reports are submitted to the A&RC with regular updates provided on counter fraud measures and investigations undertaken. Staff awareness briefing, training and whistleblowing instructions are undertaken and planned in line with the strategy.

Whistleblowing - The DfT *Whistleblowing and Raising a Concern Policy; Principles; Practices; and Guidance* is available to all staff on line. The 2015 staff survey of the DfT Group indicated that 96% of staff across DfT and its agencies were aware of the Civil Service Code and 67% were aware of how to raise a concern under the Code. In year DfT established a Group Nominated Officer and a network of Nominated Officers. DVSA has two such Permanent Secretary appointed officers to review cases and ensure policy compliance. DfT has provided Nominated Officer training designed to improve the effectiveness of whistleblowing arrangements. As with fraud cases all whistleblowing cases are reported to the A&RC.

Stewardship certificates and conflicts of interest - Each Director completes a Stewardship Certificate to declare any conflicts of interest for themselves, their families and their senior staff. Stewardship Certificates also state that by identifying and controlling risks within their Directorate and acting as Risk Steward for designated corporate risks Directors further declare they: assist DVSA in achieving its objectives; and provide the necessary assurance that their staff have taken due cognisance of internal control requirements. There are no instances of conflicts of interest that I need to report.

Information security - 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 published periodically by Communications Electronics Security Group. DVSA complies with Cabinet Office guidance on information risk management, including Bulk Data Security guidance. DVSA's Senior Information Risk Owner attends the Board acting as the focus for information risks. A network of trained Information Asset Owners is in place to ensure information assets are managed effectively and appropriate risk controls are in place, with reviews carried out quarterly looking at risks, incidents and mitigations. All staff agree to an Acceptable Use Policy before accessing IT systems. The A&RC reviews Information Assurance reports twice per annum.

There has been one significant breach that was reported to the Information Commissioner's Office this year when a spreadsheet containing anonymised HR statistics was sent to a Trade Union official. It was discovered that the file also contained background raw data which included personal data and sensitive personal data of 1,088 staff members. All the individuals directly affected by the disclosure were informed. After investigation it was concluded that this was an accidental, albeit careless, action by an individual possibly working under pressure but who had recently and successfully undergone data security refresher training. An advisory panel, chaired by the Director of Policy and Stakeholder Management prepared a report for the Board recommending short and medium term actions aimed at reducing the risk of a similar incident occurring in the future. The Information Commissioner's Office view was that DVSA took prompt and appropriate actions.

Analytical assurance - DVSA follows the guidance and principles for ensuring that decisions, especially regarding investment and change, are based on appropriate information. Adherence to DfT guidance on the quality assessment of this important business need is in line with the DfT guide – Strength in Numbers.

Financial management and stewardship - DVSA ensures efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability for expenditure and stewardship of assets is in place through a variety of control systems including:

- a mandatory Investment Control Framework which encompasses HM Treasury Green Book and DfT investment appraisal standards for all capital expenditure. This includes a process of testing whether a proposed project or expenditure offers value for money and considers strategic fit, affordability, risk, and benefit realisation. These arrangements dovetail with those of DfT for larger investments that require approval at DfT or Ministerial levels and also meet Cabinet Office Major Projects Authority requirements
- the Investment Control Framework also addresses financial propriety and other requirements from HM Treasury's Managing Public Money
- ongoing financial management reporting and review
- financial accounting system with embedded controls as well as supplementary controls to mitigate the risks of operating two finance systems
- asset Management procedures to record and account for all assets

Conclusion

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I am supported by the work of Internal Audit, by the management assurance reporting of the executive managers within the agency who are responsible for the development and maintenance of the internal control framework and by comments made by the external auditors in their management letter and other reports.

Remuneration and Staff Report¹

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 which 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 their 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 Service is outside the scope of the agency's authority and is set by the Prime Minister following independent advice from the Review Body on senior salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- Government policies for improving the public services including the requirement on Departments to meet the output targets for the delivery of Departmental services
- the funds available to Departments as set out in the Government's Departmental expenditure limits
- the Government's inflation target

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at: www.gov.uk/government/organisations/office-of-manpower-economics.

Remuneration (including salary) and pension entitlements

The following sections provide details of the total remuneration including any benefits in kind and pension interests of the directors of the agency which have been audited.

¹ Structure subject to Civil Service Pension EPN guidance

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

Directors	Salary £000		Bonus £000		Compensation for loss of office £000		Pension benefits £000 ¹		Total £000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Mr Gareth Llewellyn Chief Executive (from 14/03/16)	5-10 (130-135 FYE)	-	-	-	-	-	0-5 (50-55 FYE)	-	5-10 (180-185 FYE)	-
Mr Paul Satoor Director and Acting Chief Executive ²	140-145 ³	85-90	10-15	10-15	-	-	35-40	30-35	190-195	130-135
Mr Adrian Long Director (from 03/11/14)	100-105	40-45 (100-105 FYE)	-	-	-	-	35-40	15-20 (35-40 FYE)	135-140	55-60 (135-140 FYE)
Mr James Munson Director (from 16/03/15)	120-125	5-10 (120-125 FYE)	-	-	-	-	45-50	-	165-170	5-10 (120-125 FYE)
Mr Nicholas Graham ^{b)} Interim Director (from 12/10/15)	70-75 (140-145 FYE)	-	-	-	-	-	-	-	70-75 (140-145 FYE)	-
Ms Rachel Campbell Interim Director (from 21/09/15 to 31/03/16)	35-40 (60-65 FYE)	-	-	-	-	-	30-35 (55-60 FYE)	-	65-70 (120-125 FYE)	-
Mr Kevin Kidman ^{b)} Interim Director (from 12/10/15)	80-85 (150-155 FYE)	-	-	-	-	-	-	-	80-85 (150-155 FYE)	-
Mr Alastair Peoples Chief Executive (to 12/10/15)	65-70 (110-115 FYE)	110-115	-	15-20	-	-	10-15 (20-25 FYE)	35-40	75-80 (135-140 FYE)	165-170
Mr Paul Coombs Director (to 11/10/15)	45-50 (80-85 FYE)	80-85	-	-	-	-	10-15 (25-30 FYE)	15-20	60-65 (105-110 FYE)	95-100

¹ The value of 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.

² Acting Chief Executive between 13/10/15 and 31/03/16.

³ This includes a second workplace reimbursement of £53,536 for necessary business expenses of which £30,222 relates to 2014-15. Salary excluding the reimbursement would be between £90,000 and £95,000.

Directors	Salary £000		Bonus £000		Compensation for loss of office £000		Pension benefits £000		Total £000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Mr Robert Bellis Director (from 11/08/14 to 30/04/15)	10-15 (90-95 FYE)	55-60 (90-95 FYE)	-	-	25-30	-	0-5 (35-40 FYE)	10-15 (20-25 FYE)	40-45 (125-130 FYE)	70-75 (110-115 FYE)
Mrs Kathryn Gillatt Director (from 1/9/13 to 30/06/14)	-	30-35 (75-80 FYE)	-	-	-	85-90 ^(a)	-	(50) – (55) ((210) – (215) FYE)	-	65-70 ((130)-(135) FYE)
Mr Nicholas Carter Director (from 1/9/13 to 30/06/14)	-	30-35 (70-75 FYE)	-	-	-	150-155 ^(a)	-	0-5 (5-10 FYE)	-	185-190 (80-85 FYE)
Mr Andrew White Director (to 31/12/14)	-	120-125 (120-125 FYE)	-	-	-	55-60	-	30-35 (30-35 FYE)	-	210-215 (210- 215FYE)
Ms Asma Jhina Director ^{b)} (from 29/04/14 – 03/07/14)	-	35-40 (195-200 FYE)	-	-	-	-	-	-	-	35-40 (195-200 FYE)
Mr Shrinivas Honap Non-Executive Director (from 01/06/15)	15-20 (20-25 FYE)	-	-	-	-	-	-	-	15-20 (20-25 FYE)	-
Ms Geraldine Terry Lead Non-Executive Director (from 11/06/14)	10-15	5-10 (5-10 FYE)*	-	-	-	-	-	-	10-15	5-10 (5-10 FYE)*
Ms Fiona Ross Non- Executive Director (from 11/06/14)	15-20	10-15 (15-20 FYE)*	-	-	-	-	-	-	15-20	10-15 (15-20 FYE)*
Mr Paul Smith Non-Executive Director (to 14/06/15)	0-5 (10-15 FYE)	10-15*	-	-	-	-	-	-	0-5 (10-15 FYE)	10-15*

Directors	Salary £000		Bonus £000		Compensation for loss of office £000		Pension benefits £000		Total £000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Mrs Jane May Non-Executive Director (to 14/06/14)	-	5-10 (35-40 FYE)	-	-	-	-	-	-	-	5-10 (35-40 FYE)

^{a)} Payment made for loss of office consists of compensation payment and pension top-up which was agreed with DfT

^{b)} Contractor and not directly employed by the agency therefore no pension benefits.

* 2014-15 comparative figures for Ms Geraldine Terry, Ms Fiona Ross and Mr Paul Smith amended from those published in the DSA and VOSA Annual Report and Accounts to exclude travel expenses previously included in the Salary figure.

The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of them having an extra year's service and by virtue of any pay rise during the year. Where there is no pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.

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 based on accrued payments made by the Department and thus recorded in these accounts.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2015 to 2016 relate to performance in 2014 to 2015 and the comparative bonuses reported for 2014 to 2015 relate to the performance in 2013 to 2014 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 (see salary and bonus column above). 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 2015 to 2016 was £155,000 - £160,000 (2014 to 2015: £195,000 - £200,000). This was 6.1 times (2014 to 2015: 7.2 times) the median remuneration of the workforce, which was £25,845 (2014 to 2015: £27,615).

In 2015 to 2016, 5 (2014 to 2015: 2) staff received remuneration in excess of the highest-paid director, all of which are contractors. The remuneration banding for the highest paid employee was £195,000 - £200,000 (2014 to 2015: £225,000 - £230,000).

The median total remuneration for 2015 to 2016 is derived from the annualised payments to all staff made in March 2016. Part time employees' payments are adjusted to a full time basis.

The ratio has fallen because of the lower salary band for the highest paid director. The median salary has also fallen with less overtime being paid in March 2016 than in 2015.

Pension benefits (audited)

Director	Accrued pension at age 65 as at 31/3/16 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31/3/16 or date of departure £000	CETV at 31/3/15 or date of appointment £000	Real increase in CETV £000
Mr Gareth Llewellyn Chief Executive (from 14/03/16)	0-5	0-2.5	2	-	1
Mr Paul Satoor Director and Acting Chief Executive	35-40	0-2.5	93	64	14

Director	Accrued pension at age 65 as at 31/3/16 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/16 or date of departure	CETV at 31/3/15 or date of appointment	Real increase in CETV
Mr Adrian Long Director (from 03/11/14)	35-40	0-2.5	119	82	21
Mr James Munson Director (from 16/3/15)	45-50	0-2.5	28	-	18
Ms Rachel Campbell Interim Director (from 21/09/15 to 31/03/16)	30-35	0-2.5	256	221	16
Mr Alastair Peoples Chief Executive (to 12/10/15)	10-15	0-2.5 plus 0-2.5 lump sum	1,105	1,070	11
Mr Paul Coombs Director (to 11/10/15)	10-15	0-2.5	138	123	10
Mr Robert Bellis Director (from 11/08/14 to 30/04/15)	0-5	0-2.5	19	16	2
Mrs Kathryn Gillatt Director (up to 30/06/14)	-	-	-	326	-
Mr Nicholas Carter Director (up to 30/06/14)	-	-	-	518	-
Mr Andrew White Director (to 31/12/14)	-	-	-	186	-

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; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the 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% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 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 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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 is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Member. It is worked out using common market valuation factors for the start and end of the period.

Compensation for loss of office

1 Director left under Voluntary Exit terms during 2015 to 2016 (2014 to 2015 3). They received compensation payments totalling £28k (2014 to 2015 £297k).

Staff Report

Staff costs (audited)

During the year DVSA incurred staff costs of £167,395,000 (2014 to 2015: £167,812,000). These are analysed below.

	2015-16		2014-15	
	Permanently employed staff £000	Others £000	Total £000	Total £000
Wages and salaries	121,480	12,521	134,001	135,490
Social security costs	9,052	-	9,052	9,924
Pension costs	24,342	-	24,342	22,398
Total cost	154,874	12,521	167,395	167,812
Less recoveries in respect of outward secondments	(73)	-	(73)	(1,035)
Less capitalised costs	(960)	(4,915)	(5,875)	(4,532)
Total net staff costs	153,841	7,606	161,447	162,245

Other staff costs consist of contractors and temporary staff. In addition, DVSA has spent £274,000 (2014 to 2015: £375,000) on consultancy.

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 2015 to 2016, employers’ contributions of £24,120,000 were payable to the PCSPS (2014 to 2015: £22,189,000) at one of four rates in the range 20.0% to 24.5% (2014 to 2015: 16.7% to 24.3%) 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 2015 to 2016 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 £213,000 (2014 to 2015: £196,000) were

payable to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3% to 12.5% of pensionable earnings up to September 2015 and from 8.0% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3.0% of pensionable earnings. In addition, employer contributions of £9,000, 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015 (2014 to 2015: £13,000, 0.8%), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions (included above) due to the partnership pension providers at the reporting period date were £20,000 (2014 to 2015: £7,000). Contributions prepaid at that date were £nil (2014 to 2015: £nil).

Four persons (2014 to 2015: 11 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2014 2015: £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 retiring 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 benefit is earned by the employee.

Employee numbers (audited)

Average numbers of persons*
employed

	2015-16			2014-15
	Permanently employed staff	Others	Total	Total
Directly employed				
Senior Civil Service	4	2	6	10
Grade 6	17	4	21	22
Grade 7	61	7	68	79
Senior Executive Officer	180	38	218	196
Higher Executive Officer	526	22	548	537
Executive Officer	2,325	20	2,345	2,345
Administration Officer	1,007	44	1,051	1,040
Administration Assistant	112	16	128	139
Total	4,232	153	4,385	4,368

* Persons are defined as full-time equivalents employed during the year. Others includes contractors and agency staff.

Civil service and other compensation schemes (audited)

Exit Package Cost Band	Compulsory Redundancies		Other Agreed Departures		Total by Cost Band	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
<£10,000	-	-	4	1	4	1
£10,000-£25,000	-	-	2	1	2	1
£25,000-£50,000	-	-	5	7	5	7
£50,000-£100,000	-	-	-	9	-	9
£100,000-£150,000	-	-	-	4	-	4
Total Packages	-	-	11	22	11	22
Total Cost (£000)	-	-	213	1,399	213	1,399

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. Exit costs are accounted for in full in the year the departure is agreed. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the Principal Civil Service Pension Scheme (PCSPS). Ill-health retirement costs are met by the PCSPS and are not included in the table.

During the financial year 2015 to 2016 there were nil payments made which were not covered by the Civil Service Compensation Scheme (2014 to 2015 - £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 2016	31 March 2015
No. of existing engagements	54	70
<i>Of which:</i>		
No. that have existed for less than one year	25	52
No. that have existed for between one and two years	21	16
No. that have existed for between two and three years	7	2
No. that have existed for three and four years	1	-
No. that have existed for four or more years	-	-

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

	2015-16	2014-15
No. of new engagements, or those that reached six months duration	31	62
No. of the above which include contractual clauses giving DfT the right to request assurance in relation to income tax and national insurance obligations	31	52
No. for whom assurance has been requested	31	62
<i>Of which:</i>		
No. for whom assurance has been received	27	55
No. for whom assurance has not been received	4*	7
No. that have been terminated as a result of assurance not being received	-	-

* Of the four unassured, three have received assurance following the reporting date, and the other has left the organisation.

Board members, and/or senior officials with significant financial responsibility during the financial year

	2015-16	2014-15
No. of off- payroll engagements	2	1
No. of board members and/or senior officials with significant financial responsibility. This figure includes both off- payroll and on- payroll engagements.	10	10

Gender equality

DVSA operates an Equality and Diversity Staff Network Group to help promote the diversity and inclusion agenda, acting as a sounding board on these issues. As at 31 March 2016, 3 of the 10 members of the Directing Board were female. Of the 83 senior managers in post, 24 were female. Of the remaining workforce as at 31 March 2016 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 summary on page 19.

Policy on employment of disabled persons

DVSA, as part of the civil service, is an equal opportunity employer. This means, inter alia,

- (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

Action has been taken during the financial year to introduce, maintain or develop arrangements aimed at:

- (a) providing employees systematically with information on matters of concern to them as an employee through regular communication
- (b) consulting employees or their trade union representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests through regular consultation meetings with Trade Unions

- (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

Parliamentary Accountability Disclosures

This 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 2015 to 2016.

Regularity of expenditure

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 as recommended by Managing Public Money.

During the year, DVSA recorded gross income of £381,588,000 (2014 to 2015: £387,501,000), expenditure of £369,605,000 (2014 to 2015: £379,647,000) and a net surplus of £11,983,000 (2014 to 2015: £7,854,000). Of the income, £356,373,000 (2014 to 2015: £357,811,000) was generated through fees and charges.

DVSA has approximately 1,400 fee combinations therefore individual unit costs have not been reported. Note 3 to the Financial Statements groups the fees into product ranges and shows the surplus or (deficit) for each group. Individual fees charged by DVSA can be found at www.gov.uk.

In October 2015 DVSA reduced the fees charged for theory tests which are included in both Driver and Rider product ranges. For the car theory test this was a reduction of £2 per test ensuring that the customer benefits from contractual savings made by the agency. No other fees were changed.

Losses and special payments (audited)

Ex gratia payments of £463,000 were made in the year (2014 to 2015 £213,000) in respect of 5,777 cases (2014 to 2015: 3,070).

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. Ex gratia compensation payments increased following industrial action leading to more short notice cancellations. They also include payments to third parties in respect of accidental minor damage to vehicles in the course of vehicle testing.

During the year, on the advice from HM Treasury Solicitors, legal claims were settled through negotiated contractual payments.

Losses and special payments totalled £16,917,000 during the year (2014 to 2015 £82,000). As in prior year, this included a small value of personal injury claims. It also included two (2014 to 2015: none) cases over £300,000 relating to cancelled software development representing a constructive loss and an extra-contractual payment the terms of which are subject to a confidentiality agreement.

Constructive losses (audited)

DVSA operates in an agile software delivery environment including using external contractors to deliver services, which carries a degree of managed business risk. Where projects are identified as at risk of not achieving the business case benefits they are subject to a review, which may include re-scoping, curtailment or cancellation. Constructive losses are recognised as a result of such action, for example, where services have been received and paid for correctly but may ultimately prove to not be needed. The board took the decision to reset development on mobile compliance software development leading to a constructive loss on the spend to date on the project. This is included in impairments in the financial statements in note 8.

Remote Contingent Liabilities (audited)

DVSA has not identified any remote contingent liabilities.

Long term trends

We prepare long term financial forecasts to help ensure that our financial position is sustainable and that it can continue to deliver our financial objectives over time taking one year with another. This includes forecasting income, expenditure and capital over a five year period.

As a trading fund, the agency is able to increase its expenditure in response to increases in demand and, conversely, is expected to reduce its expenditure in response to falling demand. Prices for services are largely fixed forward as statutory fees require regulatory change and cannot be easily adjusted, so are set over a multi-year time horizon. The agency is committed to reviewing its fees over a period of time to more closely reflect the cost of the services provided. This means that whilst some fees may fall, others may need to increase, even after taking into account efficiency savings planned.

We plan on the basis that our revenue should cover our outgoings. Although the agency's costs have risen, and continue to rise, with inflation, it has been able to avoid fee increases through cost control and efficiency savings.

We are currently working through a major programme of IT upgrades to our customer facing and back office systems. The capital cost of these upgrades will increase depreciation charges in future years. These charges, together with the impact of cost inflation will, over time, increase the pressure on fees. However, this pressure is counterbalanced by the agency's Spending Review target to deliver further efficiency savings of £50.9m over the period to 2020 to 2021.

The DfT Motoring Services Strategy was published in April 2016 and includes seeking alternative delivery models for DVSA's services. The decisions taken on these matters will have a significant impact on the way that DVSA's services are delivered in future and on the agency's long term financial plans. Further information is available at <https://www.gov.uk/government/consultations/motoring-services-strategy-a-strategic-direction-2016-to-2020>



Chief Executive and Accounting Officer
16 June 2016

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 the Driver and Vehicle Standards Agency for the year ended 31 March 2016 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 are 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 Driver and Vehicle Standards Agency; 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 2016 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 there under.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

14 July 2016

Financial Statements

Statement of Comprehensive Net Income
For the period ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Income from operations			
Income from statutory activities		364,625	367,279
Income from other operating activities		16,963	20,222
Total income from operations	3	381,588	387,501
Expenditure from operations			
Staff costs	4	(161,447)	(162,245)
Other operating charges	5	(160,847)	(146,960)
Depreciation, amortisation, impairment and profit/loss on asset disposal	7	(32,136)	(56,925)
Total expenditure from operations		(354,430)	(366,130)
Net operating surplus		27,158	21,371
Finance income		344	423
Finance costs	6	(10,263)	(9,878)
Net finance costs		(9,919)	(9,455)
Surplus for the year		17,239	11,916
Dividend payable	6	(5,256)	(4,062)
Retained surplus for the year		11,983	7,854
Other comprehensive net income			
<i>Items that will not be recycled through the Statement of Comprehensive net Income:</i>			
Net gain on revaluation of property, plant & equipment	7	7,462	7,076
Net gain on revaluation of intangible assets		-	243
Total other comprehensive net income		7,462	7,319
Total comprehensive net income for the year		19,445	15,173

Accounting policies and notes forming part of the Financial Statements are on pages 59 to 84.

Note. comparative figures presented in the Financial Statements and notes to the Financial Statements are based on the 2014 to 2015 results for VOSA and DSA and adjustments as detailed in Note 2 unless otherwise indicated.

Statement of Financial Position

As at 31 March 2016

	Note	31 March 2016 £000	31 March 2015 £000
Non-current assets			
Property, plant and equipment	7	161,091	165,213
Intangible assets	8	62,945	45,011
Total non-current assets		224,036	210,224
Current assets			
Trade and other receivables	10	15,463	21,148
Assets held for sale	9	6,806	3,259
Cash and cash equivalents	17	130,411	144,014
Total current assets		152,680	168,421
Total assets		376,716	378,645
Current liabilities			
Trade and other payables	11	(115,489)	(133,353)
Provisions	12	(2,613)	(3,342)
Total current liabilities		(118,102)	(136,695)
Total assets less current liabilities		258,614	241,950
Non-current liabilities			
Provisions	12	(7,494)	(6,062)
Other payables	11	(78,098)	(82,311)
Total non-current liabilities		(85,592)	(88,373)
Assets less liabilities		173,022	153,577
Taxpayers' equity			
Public dividend capital	SoCTE	32,458	32,458
General fund	SoCTE	78,890	64,636
Revaluation reserve	SoCTE	61,674	56,483
Total taxpayers' equity		173,022	153,577

Accounting policies and notes forming part of the Financial Statements are on pages 59 to 84.



Chief Executive and Accounting Officer
16 June 2016

Statement of Cash Flows

For the period ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Cash flows from operating activities			
Net operating surplus	SoCNI	27,158	21,371
Adjustments for non-cash transactions	17	33,067	54,740
Decrease in trade and other receivables	10	5,685	22,176
Increase/ (decrease) in trade and other payables	17	9,394	(10,451)
(Use) of provisions and unwinding discount	12	(2,859)	(1,236)
Net cash inflow from operating activities		72,445	86,600
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(6,671)	(5,303)
Purchase of intangible assets	8	(40,538)	(28,127)
Proceeds of disposal of property, plant and equipment		5,176	657
Net cash (outflow) from investing activities		(42,033)	(32,773)
Cash flows from financing activities			
Interest received on cash balances	SoCNI	344	423
Interest payments made under finance leases	6	(9,124)	(7,101)
Repayment of loans from the Secretary of State	13	(30,754)	(32,439)
Interest payable on loan financing	6	(1,090)	(2,506)
Repayment of capital under PFI contract	15	(3,391)	(6,537)
Net financing		(44,015)	(48,160)
Net (decrease) / increase in cash and cash equivalents	17	(13,603)	5,667
Cash and cash equivalents at the beginning of the year		144,014	138,347
Cash and cash equivalents at the end of the year		130,411	144,014

Accounting policies and notes forming part of the Accounts are on pages 59 to 84.

Statement of Changes in Taxpayers' Equity

For the period ended 31 March 2016

	Note	General Fund £000	Revaluation Reserve £000	Public Dividend Capital £000	Total Taxpayers' Equity £000
Balance as at 1 April 2014		57,108	48,838	32,458	138,404
Changes in 2014-15					
Retained surplus for the year	SoCNI	7,854	-	-	7,854
Revaluation gains and losses	SoCNI	-	7,319	-	7,319
Transfers between reserves		(326)	326	-	-
Total		7,528	7,645	-	15,173
Balance as at 31 March 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

Accounting policies and notes forming part of the Financial Statements are on pages 59 to 84.

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 2015 to 2016 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.

The following accounting standards and amendments to accounting standards have been adopted for the first time for the financial year beginning on 1 April 2015:

IFRS 13 provides consistent guidance on the fair value measurement for all relevant balances and transactions covered by IFRS. Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context limiting the circumstances in which valuation is prepared under IFRS 13. The FReM adopts IAS 16 and IAS 38 with the effect that assets held for service potential are valued on an existing use basis.

There are a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2016, and have not been applied in these financial statements. The following new standards may affect the accounts if they are adopted by the 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 14.

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.

On the 1 April 2015 the DVSA Trading Fund was legally established, replacing the DSA and VOSA trading funds which were closed. Merger accounting has been used to restate the prior year comparators as if DVSA has always existed.

DVSA comparatives for 2014 to 2015 have been derived from DSA and VOSA accounts and adjusted as if the two have always been merged. The adjustments are explained in note 2.

b) Income recognition

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

- application for operator licences and the granting of licences;
- registration of bus routes;
- first and annual testing of heavy vehicles;
- administering the MOT service;
- theory and practical driving tests;
- 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 11).

Central funding in the form of loans from the Secretary of State has also been provided to DVSA to support the investment in major estate, equipment and IT developments which could not be funded from DVSA's own resources. In accordance with IFRS, 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. 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 3 for key activities for the purposes of Fees and Charges regulations to comply with Managing Public Money¹⁵.

DVSA uses several bases for apportioning costs to activities, based on management's best estimate of the driver of costs. DVSA has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

f) Property, plant and equipment

Valuation

Land and buildings were brought into the agency 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 following impairment in 2014 to 2015 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.

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.

¹⁵ <https://www.gov.uk/government/publications/managing-public-money>

g) Assets under construction

DVSA capitalises the value of assets under construction at cost plus costs directly attributable to bringing the asset into working 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 and have estimated useful lives of between two and ten years.

Expenditure on IT systems development is capitalised only if it is probable that future economic benefits attributable to the asset will flow to DVSA. 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 from the month that the asset is brought in to use on a straight-line basis, Assets under construction are not depreciated until brought into use. The asset categories and estimated useful lives are as follows:

- Freehold buildings 10-60 years
Leasehold property is fully written down over the term of the lease with the exception of Chadderton where the lease is 999 years and the leasehold property is written down over 60 years.
Freehold land is not depreciated.
- Other categories:

Plant and machinery	5-10 years
Transport equipment	2-8 years
IT equipment	3-10 years
IT 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 18 the information it is required to report.

The carrying values of the agency's financial assets and liabilities at 31 March 2016 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 (1.37% for pensions, minus 1.55% for all other short term provisions – less than five years and minus 1.00% 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:

1. It is not probable that an outflow of resource embodying economic benefits will be required to settle the obligation or
2. 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:

1) 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 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.

2) 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 assets is undertaken annually to determine if an asset meets the impairment criteria when the asset value is restated to the underlying recoverable amount.

3) Property, plant and equipment

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.

a) Valuations

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 depreciated replacement cost method.

b) Goods Vehicle Testing Station Impairment

Following the merger management reviewed the appropriateness of the carrying values of Goods Vehicle Testing Stations (GVTS) and concluded that due to plans for disposal and over 90% testing being carried out at ATFs, it was more appropriate for GVTS to be held at market value. This change in valuation is considered appropriate as during that year, GVTS sites changed from being the main locations where testing was conducted to a minor provider (reducing from c23% at the start of the year to less than 9% by the end of the year).

c) Estimation of useful life

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

4) 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.

5) Apportionment of costs to statutory activities

Note 3 to the financial statements shows the income and expenditure relating to statutory activities. The agency's management reviews its activities to ensure that the financial objective, to recover full costs inclusive of a rate of return on capital employed of 3.5%, taking one year with another, is met.

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 23 and is prepared in accordance with the accounting policies used by DVSA.

Note 2 – Merger adjustment

On 1 April 2015, DVSA Trading Fund was established from the DSA and VOSA Trading Funds. This has been accounted for using merger accounting principles, whereby the 2014 to 2015 comparatives in these financial statements are presented so that it appears that the new entity has always existed in its present form. However, adjustments have been made relating to assets transferred on the closure of VOSA directly to Highways England, and changes to accounting policies between the former agencies and DVSA.

A summary of the primary statements of the individual merged entities at 1 April 2015 is presented below to show how the comparatives have been derived.

		2014-15 £000	2014-15 £000	2014-15 £000	2014-15 £000
Statement of Comprehensive Net Income	Notes	DSA	VOSA	Merger adjustment	Restated DVSA
Total income from operations	a	203,917	185,572	(1,988)	387,501
Total expenditure from operations	b	(165,261)	(183,208)	(17,661)	(366,130)
Net operating surplus		38,656	2,364	(19,649)	21,371
Net finance costs and dividend	c	(9,528)	(3,719)	(270)	(13,517)
Retained surplus for the year		29,128	(1,355)	(19,919)	7,854
Total other comprehensive net income / (expenditure)	d	(877)	2,424	5,772	7,319
Total comprehensive net income for the year		28,251	1,069	(14,147)	15,173

a – The merger adjustment eliminates intercompany income totalling £1,988,000

b – The merger adjustment is made up of:

£000	
1,988	Intercompany cost eliminated.
270	Unwinding provision discount moved to net finance costs for presentation consistency.
166	Depreciation removed for assets transferred to Highways England.
18	Depreciation removed for an asset not transferred to DVSA's non-current assets.
(327)	Depreciation charge, following the adoption of DVSA's policy treatment of abnormal and legal costs associated with development of property and the policy to include VAT in asset valued under direct replacement cost (DRC).
(19,776)	Impairment of vehicle testing stations to a market valuation following a review of the next generation testing programme (see Goods Vehicle Testing Station Impairment in note 1).
<u>(17,661)</u>	

c – unwinding provision discount moved to net finance costs for presentation consistency

d – £5,772 is a revaluation reserve adjustment following the adoption of DVSA's policy treatment of abnormal and legal costs associated with development of property, the policy to include VAT in asset valued under direct replacement cost (DRC) and the impairment of property to market value

Statement of Financial Position at 1 April 2014	Notes	DSA £000	VOSA £000	Merger adjustment £000	Restated DVSA £000
Total non-current assets	e	112,089	117,099	878	230,066
Total current assets	f	95,256	87,625	(960)	181,921
Total current liabilities	g	(80,841)	(74,663)	960	(154,544)
Total non-current liabilities		(50,313)	(19,239)	(49,487)	(119,039)
Assets less liabilities		76,191	110,822	(48,609)	138,404
Taxpayers' Equity:					
Public dividend capital		3,475	28,983	-	32,458
Loans from the Secretary of State		8,036	41,451	(49,487)	-
General fund		48,374	9,784	(1,050)	57,108
Revaluation reserve		16,306	30,604	1,928	48,838
Total taxpayers' equity		76,191	110,822	(48,609)	138,404

e – The merger adjustment is made up of:

£000	
(3,616)	Assets removed and transferred to Highways England.
5,038	Net valuation increase for adoption of DVSA's policy treatment of abnormal and legal costs associated with development of property minus £268 and the policy to include VAT in asset valued under direct replacement cost (DRC) increase of £1,486 for weighbridges and £3,820 for GVTS.
(544)	Removal of Tormarton from the asset register following legal review of title.
(49,487)	Amendment following change of policy to categorise long term element of Secretary of State loans as non-current liabilities (previously included in Taxpayers' equity in the books of VOSA and DSA).
<u>(48,609)</u>	

f – The merger adjustment eliminates intercompany trade debtors from the Statement of Financial position.

g – The merger adjustment eliminates intercompany trade creditors from the Statement of Financial position.

Statement of Financial Position at 31 March 2015	Notes	DSA £000	VOSA £000	Merger adjustment £000	Restated DVSA £000
Total non-current assets	h	105,466	118,027	(13,269)	210,224
Current assets:					
Trade and other receivables	i	4,675	16,967	(494)	21,148
Assets held for sale		455	2,804	-	3,259
Cash and cash equivalents	j	94,753	49,246	15	144,014
Total assets		205,349	187,044	(13,748)	378,645
Total current liabilities	k	(58,246)	(78,928)	479	(136,695)
Total non-current liabilities		(50,697)	(16,209)	(21,467)	(88,373)
Assets less liabilities		96,406	91,907	(34,736)	153,577

Statement of Financial Position at 31 March 2015	Notes	DSA	VOSA	Merger adjustment	Restated DVSA
Taxpayers' Equity:					
Public dividend capital		3,475	28,983	-	32,458
Loans from the Secretary of State		-	21,467	(21,467)	-
General fund		75,100	11,128	(21,592)	64,636
Revaluation reserve		17,831	30,329	8,323	56,483
Total taxpayers' equity		96,406	91,907	(34,736)	153,577

The Statement of Financial position for 31 March 2015 starts from the previously published accounts of DSA and VOSA, therefore the merger adjustments at 1 April 2014 are included plus the adjustment from the Statement of Comprehensive Net Income.

h – The merger adjustment is made up of:

£000	
(3,450)	Assets transferred to Highways England (the opening balance less depreciation).
(8,001)	Reduction in value of vehicle testing stations following a review of the Next Generation Testing Programme. This figure comprises the net effect of a revaluation according to DVSA's valuation policy on the replacement cost basis £11,775 and a subsequent impairment of minus £19,776 moving the overall balance to market value as reflected in the I&E adjustments above and in note 7.
(1,292)	Net valuation decrease for adoption of DVSA's policy treatment of abnormal and legal costs associated with development of property and the policy to include VAT in asset valued under direct replacement cost (DRC).
(526)	Removal of Tormarton from the asset register (the opening balance less depreciation).
(21,467)	Amendment following change of policy to categorise long term element of Secretary of State loans as non-current liabilities (previously included in Taxpayers' equity in the books of VOSA and DSA).
(34,736)	

i – The merger adjustment eliminates intercompany trade debtors from the Statement of Financial position.

j – This merger adjustment accounts for cash in transit between DSA and VOSA at the 31 March 2015

k– The merger adjustment eliminates intercompany trade creditors from the Statement of Financial position.

Note 3 – Income and surplus/(deficit) on activities

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

Activity	2015-16			2014-15		
	Income £000	Expenditure £000	Surplus/ (deficit) £000	Income £000	Expenditure £000	Surplus/ (deficit) £000
Driver services	195,081	185,382	9,699	199,246	172,678	26,568
Vehicle services	108,502	120,127	(11,625)	109,129	142,063	(36,934)
MOT service	61,302	49,024	12,278	59,410	43,880	15,530
Licensing services	13,013	12,408	605	13,147	12,006	1,141
Other services	3,690	2,664	1,026	6,569	5,020	1,549
Total	381,588	369,605	11,983	387,501	379,647	7,854

Each statutory service has a financial objective to recover full costs inclusive of a rate of return on capital employed of 3.5%, taking one year with another. This is usually taken to mean over the five year period as stated in the Treasury minute. Other operating activities have a financial objective set under the HM Treasury Fees and Charges Guide to recover full costs, as a whole, having taken into account the relevant return on capital employed, which is at market rate for non-statutory services.

2015 to 2016 is the first year of DVSA's five year period and the agency will review the service surpluses and deficits taking actions where possible to adjust fees and re-allocate resources to bring the services back to break even. This is in line with the Motoring Services Strategy, under which DVSA is committed to reviewing the number of fees it charges and realigning fees more closely to the service costs involved.

The 2014 to 2015 results are produced for illustrative purposes only using the same methodology as for 2015 to 2016. This methodology reflects the new DVSA organisation structure. Due to changes in structure, groupings of income and expenditure and allocation and apportionment rules, the 2014 to 2015 figures are not necessarily comparable to those shown for 2015 to 2016.

The Driver service includes practical and theory tests and related standards, accreditation and compliance activities. Results for this service are sensitive to volumes and have been impacted by the recent reductions in theory test fees. Allowing for the cyclical nature of some income and one off income and costs, performance across this service has remained fairly stable.

The Vehicle service includes vehicle testing and compliance activities. The results for this service have been impacted by one off impairments in both years and, to a smaller extent, by a reduction in income following the uptake of Next Generation Testing which generates lower statutory fees. Excluding the one off items, the results for the two years are broadly consistent.

Income from MOT Service Management has risen in line with volumes. Expenditure savings following the implementation of the new service in the current year have been more than offset by transitional costs and a one off impairment charge.

Licensing service performance has remained relatively stable, with the year on year increase in expenditure being mainly due to an increase in corporate costs.

Other comprises publications and training activities, together with projects that are fully funded by DfT. Expenditure and consequently income from these projects has fallen in the current financial year due to reductions in activity on behalf of the Department in these areas.

Note 4 – Staff costs

	2015-16		2014-15	
	Permanently employed staff £000	Others £000	Total £000	Total £000
Wages and salaries	121,480	12,521	134,001	135,490
Social security costs	9,052	-	9,052	9,924
Pension costs	24,342	-	24,342	22,398
Total costs	154,874	12,521	167,395	167,812
Less recoveries in respect of outward secondments	(73)	-	(73)	(1,035)
Less capitalised costs	(960)	(4,915)	(5,875)	(4,532)
Total net staff costs	153,841	7,606	161,447	162,245

Other staff costs consist of contractors and temporary staff. In addition, DVSA has spent £274,000 (2014 to 2015: £375,000) on consultancy.

Note 5 – Other operating charges

	2015-16 £000	2014-15 £000
Theory test	41,827	35,221
Information technology	27,137	22,141
Accommodation costs	22,814	20,452
MOT	19,960	19,647
Rentals under operating leases	10,778	11,947
Travel and subsistence	10,123	10,966
Contracted services	7,345	9,503
Auditors' remuneration and expenses	105	150
Other	20,758	16,933
Total other operating charges	160,847	146,960

Details of the non-cash items relating to non-current assets can be found in note 7 and non-cash items related to provisions can be found in note 12.

Note 6 – Finance costs

	2015-16	2014-15
	£000	£000
Interest charges on loans from the Secretary of State	1,090	2,506
Interest charges on finance leases	9,076	6,760
Interest charges on imputed finance lease element of on-balance sheet PFI contracts	48	341
Unwinding discount on provisions	49	271
Total finance costs	10,263	9,878

Dividend payable	2015-16	2014-15
	£000	£000
Capital employed ⁺ at the start of the period	175,044	187,013*
Capital employed ⁺ at the end of the period	187,602	188,313*
Average capital employed ⁺	181,323	187,663*
3.5% return on capital employed	6,346	6,568
Less interest payable on loans from DfT	(1,090)	(2,506)
Total dividend payable to DfT	5,256	4,062

The Secretary of State for Transport has determined financial objectives for DVSA. These were confirmed by Treasury Minute dated 31 March 2016, 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 average Return On Capital⁺ (ROC) over the period 1 April 2015 to 31 March 2016 was 18.5%, exceeding the Secretary of State target of 3.5% for the period. The ROC is paid through a combination of interest and dividend. The return on capital has historically been delivered to DfT through the payment of interest on loans where the total interest paid has exceeded the value represented by the target return of 3.5% on capital. Total interest has remained below the return needed to meet the target. As a result DVSA will pay a dividend of £5.3m to DfT (2014 to 2015: £4.1m).

Return on capital employed⁺	Notes	2015-16	2014-15
		£000	£000
Surplus for the year	SoCNI	17,239	11,916
Adjustment for interest charges on loans from the Secretary of State	6	1,090	2,506
Adjustment for asset impairment and write-off	7	16,130	37,356
Adjustment for (profit)/ loss on asset disposal	7	(940)	1,824
Surplus on ordinary activities		33,519	53,602
Average capital employed ⁺		181,323	187,663*
Return on capital employed⁺		18.5%	28.6%

⁺ 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).

i.e. "Capital employed shall equate to the capital and reserves, i.e. the Public Dividend Capital, long-term element of Exchequer loans, and reserves. "

* Comparative figures marked in this note are the historic figures used for DSA and VOSA before merger adjustments to match to the dividend actually paid to DfT for 2014 to 2015.

Note 7 – Property, plant and equipment

2015-2016	Land £000	Buildings £000	IT Equipment £000	Plant and Machinery £000	Transport Equipment £000	Assets Under Construction £000	Total £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

*Included within the reclassifications categorisation are £5,193,000 assets that have been transferred to assets held for sale and accounts for substantially all the reclassifications (see note 9). The remaining reclassification is between IT equipment and IT software (see note 8).

Leasehold property assets comprise multi-purpose test centres procured under finance leases, capitalised expenditure for works undertaken on properties held under operating

leases and the capital values of properties held under leases at less than market rents e.g. peppercorn rents.

As a result of revaluations, assets (including assets held for sale) were revalued and impaired downwards by £7,684,000 (net) (2014 to 2015: £(675,000)). Of this £15,146,000 (2014 to 2015: £(7,751,000)) was charged to the Statement of Comprehensive Net Income operating costs and £7,462,000 (2014 to 2015: £7,076,000) was taken to other comprehensive net income.

The revaluation reserve shown within the Statement of Changes in Taxpayers' Equity has a closing balance of £61,674,000 (adjusted 2014 to 2015: £56,483,000) of which £61,622,000 (2014 to 2015: £56,270,000) 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.

2014-15	Land £000	Buildings £000	IT Equipment £000	Plant, Machinery, Furniture and Fittings £000	Transport Equipment £000	Assets Under Construction £000	Total £000
Cost or valuation							
At 1 April 2014	35,607	218,524	10,367	38,892	10,669	1,808	315,867
Additions	4	3,521	712	29	95	942	5,303
Disposals	-	(4,869)	(152)	(24,427)	(416)	-	(29,864)
Impairments	(32)	(32,327)	-	-	-	-	(32,359)
Reclassifications	(1,533)	(33,344)	(231)	(563)	(410)	(1,453)	(37,534)
Revaluations	2,126	(13,520)	49	95	(40)	-	(11,290)
At 31 March 2015	36,172	137,985	10,745	14,026	9,898	1,297	210,123
Depreciation							
At 1 April 2014	-	62,067	9,343	34,438	7,072	-	112,920
Charge for the year	-	7,346	657	1,087	1,430	-	10,520
Disposals	-	(3,041)	(153)	(22,389)	(407)	-	(25,990)
Impairments	-	-	-	-	-	-	-
Reclassifications	-	(31,675)	(262)	(385)	(405)	-	(32,727)
Revaluations	-	(19,916)	43	85	(25)	-	(19,813)
At 31 March 2015	-	14,781	9,628	12,836	7,665	-	44,910
Carrying value							
At 1 April 2014	35,607	156,457	1,024	4,454	3,597	1,808	202,947
At 31 March 2015	36,172	123,204	1,117	1,190	2,233	1,297	165,213

2014-15	Land £000	Buildings £000	IT Equipment £000	Plant, Machinery, Furniture and Fittings £000	Transport Equipment £000	Assets Under Construction £000	Total £000
Asset financing							
Owned assets	36,172	42,739	1,117	1,190	2,233	1,297	84,748
Enhancements to lease property	-	36,686	-	-	-	-	36,686
Finance leased assets	-	43,779	-	-	-	-	43,779
At 31 March 2014	36,172	123,204	1,117	1,190	2,233	1,297	165,213

Analysis of depreciation, amortisation and impairment line in Statement of Comprehensive Net Income	Notes	2015-16 £000	2014-15 £000
Depreciation of property, plant and equipment	7	8,665	10,520
Amortisation of intangibles	8	9,162	11,541
(Profit) / loss on disposal of assets		(940)	1,824
Net impairment of non-current assets	7&8	16,027	35,376
Write-off of property, plant and equipment	7	103	1,980
Revaluation of property plant and equipment not taken to the revaluation reserve		(881)	(4,464)
Revaluation of intangibles not taken to the revaluation reserve		-	148
		32,136	56,925

Note 8 – Intangible assets

2015-16	IT Software £000	Assets Under Construction £000	Total £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
Asset financing			£000
Owned Assets			62,945
PFI Contracts			-
Total carrying value at 31 March 2016			62,945

Intangible assets comprise software licences, bespoke IT system systems and IT developments which are used for providing digital and information and communications technology services. As these assets do not have an active market, they are valued at historic cost as a proxy for depreciated replacement cost, unless impairment has been deemed appropriate.

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 ICT programme due to either changes in business requirements, or revisions to systems architecture consequential to an agile software environment.

Intangible assets under construction, were therefore impaired by £13,629,000 (2014 to 2015: £nil) during the year. This was taken to the Statement of Comprehensive Net Income.

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	AUC	14,542
Total		62,945

2014-15	IT Software £000	Assets Under Construction £000	Total £000
Cost or valuation			
At 1 April 2014	120,130	8,122	128,252
Additions	328	27,799	28,127
Disposals	(5,314)	-	(5,314)
Impairments	-	-	-
Reclassifications	2,852	(1,379)	1,473
Revaluations	349	-	349
At 31 March 2015	118,345	34,542	152,887
Amortisation			
At 1 April 2014	101,133	-	101,133
Charge for the year	11,541	-	11,541
Disposals	(5,314)	-	(5,314)
Impairments	-	-	-
Reclassifications	262	-	262
Revaluations	254	-	254
At 31 March 2015	107,876	-	107,876
Carrying value			
At 1 April 2014	18,997	8,122	27,119
At 31 March 2015	10,469	34,542	45,011

Asset financing	£000
Owned Assets	42,347
PFI Contracts	2,664
Total carrying value at 31 March 2015	45,011

Analysis of IT Software:	Remaining Life At 31 March 2015 £000	Net Book Value At 31 March 2015 £000
MOT system	0 to 10 years	29,106
Mobile compliance	AUC	2,727
Operator Licence Compliance System	AUC	3,940
Other	0 to 7 years	9,238
Total		45,011

DSA had a policy of revaluing intangible assets based on indices indexation which was not adopted by DVSA. A revaluation reserve of £52,000 (2014 to 2015: £213,000) relating to the legacy policy remains and will be eliminated on disposal of the asset.

Note 9 – Assets held for sale

	2015-16	2014-15
	£000	£000
At 1 April 2015	3,259	250
Disposals of assets	(3,647)	(587)
Transferred in year as assets held for resale	5,193	3,596
Revaluations	2,001	-
At 31 March 2016	6,806	3,259

Sale of assets resulted in cash receipts of £5,176,000 (2014 to 2015: £657,000). These contributed to the early repayment of loans.

Note 10 – Trade and other receivables

Amounts due within one year	31 March 2016	31 March 2015
	£000	£000
Trade receivables	7,002	11,979
Interest receivable	18	20
Recoverable VAT	4,290	4,642
Prepayments and accrued income	3,964	4,295
Other receivables	189	212
Total	15,463	21,148

Included in the above are £11,995,000 (2014 to 2015 £16,618,000) due from other central government bodies.

There are no amounts due after more than one year.

Decrease in trade and other receivables during the year is £5,685,000 (2014-15 £22,176,000).

Note 11 – Trade and other payables

	31 March 2016	31 March 2015
Amounts falling due within one year	£000	£000
Accruals and deferred income	79,462	59,772
Current instalment on Secretary of State loans (see note 13)	2,451	26,318
Fees in advance	10,411	17,161
Grant funding from DfT	10,359	13,695
Current part of finance leases	5,803	5,627
Other payables	5,361	4,408
Current part of imputed finance lease element of on balance sheet PFI contracts	-	3,391
Trade payables	1,642	2,981
Total	115,489	133,353

Included in the above are £22,704,000 (2014-15 £43,928,000) due to other central government bodies.

	31 March 2016	31 March 2015
Amounts falling due after more than one year	£000	£000
Finance leases	48,709	45,761
Deferred income	14,467	14,550
Future instalments on Secretary of State loans (see note 13)	14,580	21,467
Other payables	342	533
Total	78,098	82,311

Note 12 – Provisions

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

2014-15	Early Departure £000	Lease Obligations £000	Dilapidations £000	Legal claims £000	Total £000
At 1 April 2014	3,330	4,012	912	1,372	9,626
Provided in the year	1	1,555	187	369	2,112
Provisions not required written back	-	(6)	(212)	(880)	(1,098)
Provision utilised in year	(721)	(706)	-	(80)	(1,507)
Borrowing costs (unwinding of discount)	(4)	275	-	-	271
At 31 March 2015	2,606	5,130	887	781	9,404
Analysis of expected timing of discounted flows					
- Not later than one year	1,289	385	887	781	3,342
- Later than one year and not later than five years	1,317	734	-	-	2,051
- Later than five years	-	4,011	-	-	4,011
Total greater than one year	1,317	4,745	-	-	6,062
At 31 March 2015	2,606	5,130	887	781	9,404

Use of provision and unwinding of discount during the year is £2,589,000 (2014 to 2015 £1,236,000)

Early Departure – provision is made for staff leaving under voluntary early retirement arrangements, when the arrangement is agreed. Costs include lump sum pension payments and the total pension liability up to normal retirement age in respect of each employee. Amounts are released from this provision annually until normal retirement age.

Lease Obligations – the provision relates to property leases and reflects the crystallisation of future liabilities for properties that we have ceased to occupy but that 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 back dated to the start of the new lease period.

Dilapidations – the provision is the 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 reliably predict and are, therefore, excluded from the provision.

Legal claims – the provision is an estimate of the expenditure arising from all the legal claims against the agency which are expected to materialise following due legal process, which include claims for unfair dismissal, discrimination and personal injury.

Note 13 – 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 2016	31 March 2015
	£000	£000
Replacement Vesting Loan issued in 2006-07		
20 year repayment loan at 4.55% interest	-	3,405
Loan issued in 1996-97		
20 year repayment at 8.25% interest	-	92
Loan issued in 2003-04		
15 year repayment at 4.35% interest	-	1,813
Loan issued in 2003-04		
15 year repayment at 4.9% interest	-	5,077
Loan issued in 2004-05		
15 year repayment at 4.6% interest	-	2,000
Loan issued in 2005-06		
15 year repayment at 4.4% interest	-	2,750
25 year repayment at 4.5% interest	-	3,000
Loan issued in 2005-06		
15 year repayment at 4.5% interest	-	4,333
Loan issued in 2006-07		
15 year repayment at 5.15% interest	4,838	8,750
Loan issued in 2007-08		
15 year repayment at 4.54% interest	11,500	15,700
Loan issued in 2009-10		
10 year repayment at 3.0% interest	693	865
Total Loans	17,031	47,785

	31 March 2016	31 March 2015
	£000	£000
Amounts repayable:		
– Current loan instalment (see note 11)	2,451	26,318
– In one to two years	2,451	7,080
– In two to five years	7,179	13,621
– After five years	4,950	766
Amounts due after more than one year (see SoCTE)	14,580	21,467
Total Loans	17,031	47,785

Loans repayments made in the year were £30,754,000 (2014-15: £32,439,000).

Note 14 – Commitments under leases

Operating leases	31 March 2016			31 March 2015		
	Land and Buildings £000	Other £000	Total £000	Land and Buildings £000	Other £000	Total £000
Minimum lease payments						
- Not later than one year	8,022	1,283	9,305	8,073	775	8,848
- Later than one year and not later than five years	25,701	1,321	27,022	24,840	1,266	26,106
- Later than five years	119,793	-	119,793	117,877	-	117,877
Total	153,516	2,604	156,120	150,790	2,041	152,831

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.

Payments under finance leases	Buildings	
	31 March 2016	31 March 2015
	£000	£000
Minimum lease payments:		
- Not later than one year	5,899	5,800
- Later than one year and not later than five years	25,283	24,622
- Later than five years	259,968	264,881
Total payment obligations under finance leases	291,150	295,303
- Less interest element	(236,524)	(243,767)
Present value of obligations under finance leases	54,626	51,536
Present value of lease payment:		
- Not later than one year	5,899	5,800
- Later than one year and not later than five years	17,274	16,151
- Later than five years	31,453	29,585
Total present value of obligations under finance leases	54,626	51,536
Carrying value of finance leases included within property, plant and equipment	43,448	43,779
Receipts expected from sub-leases	4,174	4,419

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 sites.

Note 15 – Commitments under PFI contracts

The substance of the previous contract for the provision of the MOT system was that DVSA had a finance lease where payments comprise two elements – imputed finance lease charges and service charges. The contract expired in September 2015 and the service was replaced by a new non-PFI contract. The finance lease charges can be seen in the table below:

	31 March 2016 £000	31 March 2015 £000
Total obligations under PFI contracts for the following periods comprise:		
Not later than one year	-	3,440
Later than one year and not later than five years	-	-
Less interest element	-	(49)
Total	-	3,391

Note 16 – Capital commitments

	31 March 2016 £000	31 March 2015 £000
Contracted:		
Property, plant and equipment	-	4,469
Intangible assets	1,451	1,720
Total capital commitments	1,451	6,189

Note 17 – Cash and cash equivalents

	2015-16 £000	2014-15 £000
Balance at 1 April	144,014	138,347
Net change in cash and cash equivalent balances	(13,603)	5,667
Balance at 31 March	130,411	144,014

The following balances at 31 March were held at

– Government Banking Services	129,570	144,014
– Commercial banks and cash in hand	841	-
– Short term investments	-	-
Balance at 31 March	130,411	144,014

Analysis of cash flows for the Statement of Cash Flows:

Adjustments for non-cash transactions	Note	2015-16 £000	2014-15 £000
Depreciation, amortisation, impairment and profit/loss on asset disposal	7	32,136	56,925
Provision provided in year and written back, less unwinding discount	12	3,513	743
Dividend	6	(5,256)	(4,062)
Movement in other payables greater than one year	11	2,674	(2,257)
Less movement on finance lease element of on-balance sheet PFI	11	-	3,391
		33,067	54,740

Increase/decrease in trade and other payables	Note	2015-16 £000	2014-15 £000
Movement in trade and other payables	11	(17,864)	(18,016)
Less movement in current instalment on Secretary of State Loans	11	23,867	4,419
Less movement in current part of imputed finance lease element	11	3,391	3,146
		9,394	(10,451)

Note 18 – Financial Risk Management

Fair values – The carrying values of the agency's financial assets and liabilities at 31 March 2016 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.

Exposure to Credit Risk – The carrying amount of the financial assets £145,874,000 (31 March 2015: £165,162,000) represents the maximum credit exposure.

Liquidity Risk – The agency is not exposed to a liquidity risk as further borrowing requirements, should they arise, will 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 8% (2014 to 2015: 12%) of total Taxpayers' Equity. The interest rates are fixed at the time of the loan issue and are identified in note 13. Short-term risk arises from holding received loans temporarily as cash prior to utilisation, this risk is small due to the stability of interest rates and is not managed. The rate of interest earned through these investments and on cash balances varies and will offset the short-term risk from holding loans temporarily as cash to some extent.

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. There is no impact on the financial statements.

Note 19 – Contingent liabilities

There are a number of legal and contractual claims or potential claims against the agency, the outcome of which cannot at present be reliably measured and / or the ability to assess the probability of the outcome. Full provision is made in the financial statements when the extent of the liability is known with reasonable certainty (see note 12).

Note 20 – 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, 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 (2014 to 2015: nil).

Note 21 – Events after the reporting period

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

There have been no other events since 31 March 2016 to the date the accounts were authorised for issue which would affect the understanding of these accounts.

Note 22 – 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 14 July 2016.

Note 23 – Graduated fixed penalties and deposits

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury previously directed DVSA to prepare for each financial year a trust statement in the form and on the basis set out in the accounts direction in Dear Accounting Officer letter [DAO (GEN) 04/14]. A separate audited Trust Statement is no longer required. However this note continues to be prepared 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 2016 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 collects fixed penalty fines issued by the police and authorised DVSA representatives for vehicle related offences on behalf of HM Treasury. 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	2015-16 £000	2014-15 £000
Revenue for offences in:		
Fixed penalties	4,282	3,641
Bus penalties	60	44
Total Revenue	4,342	3,685
Cash lost in transit	-	(1)
Net revenue for the Consolidated Fund	4,342	3,684

Balance held on behalf of HM Treasury	31 March 16 £000	31 March 15 £000
Current Assets:		
Fixed penalties issued in March	15	28
Cash and cash equivalents held in trust	783	813
Total Assets	798	841
Current liabilities:		
Court deposits	(42)	(38)
Unallocated receipts	(1)	(3)
Total Liabilities	(43)	(41)
Balance due to Consolidated Fund	755	800

Cash balance movement	2015-16 £000	2014-15 £000
Net revenue for the Consolidated Fund	4,342	3,684
(Increase)/decrease in fixed penalties issued in March	13	8
Increase/(decrease) in liabilities	2	5
Cash paid to the Consolidated Fund	(4,387)	(3,372)
Net increase/(decrease) in cash and cash equivalents	(30)	325
Cash and cash equivalents at the beginning of the year	813	488
Cash and cash equivalents at the end of the year	783	813

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.

Glossary

ADI	Approved Driving Instructor
A&RC	Audit and Risk Committee
ANPR	Automatic Number Plate Recognition
ATF	Authorised Testing Facility
B+E	Car Trailer
CBT	Compulsory Basic Training
CETV	Cash Equivalent Transfer Value
CIECA	International Commission for Driver Testing
CITA	International Motor Vehicle Inspection Committee
CPC	Driver Certificate of Professional Competence
DfT	Department for Transport
DRC	Direct Replacement Cost
DSA	Driving Standards Agency
DVLA	Driver and Vehicle Licensing Agency
DVSA	Driver and Vehicle Standards Agency (formerly VOSA and DSA)
FReM	Financial Reporting Manual (as issued by HM Treasury)
FTE	Full Time Equivalent
FYE	Full Year Equivalent
GDS	Government Digital Services
GVTS	Goods Vehicle Test Station
HGV	Heavy Goods Vehicle
IAS	International Accounting Standards
ICC	Investment and Change Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
LGV	Large Goods Vehicle
LPG	Liquid Petroleum Gas
MOT	Annual statutory test for private vehicles
NAO	National Audit Office
NED	Non-Executive Director
PCV	Passenger Carrying Vehicle (bus or coach)
PFI	Private Finance Initiative
PMG	Portfolio Management Group
PSV	Public Service Vehicle
REO	Remote Enforcement Office
ROC	Return on Capital
ROCE	Return on Capital Employed
SOCNI	Statement of Comprehensive Net Income
SOCTE	Statement of Change in Taxpayers Equity
VAT	Value Added Tax
VOSA	Vehicle and Operator Services Agency

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