VOSA

Vehicle & Operator Services Agency

Annual Report and Accounts 2004/05

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Contents

Highlights of 2004/05

E-services win 3 awards

- Operator Self-Service accounted for more than 40% of vehicle change transactions in March 2005 with 13,000 operators registered for Self-Service.

"user-friendly"

“great time-saving benefits"

More effective roadside enforcement

- Power to Stop extended further

- Automatic Number Plate Recognition linked to Weigh in Motion sensors in partnership with the Highways Agency

Customers! Customers! Customers!

- Refurbishment of two Test Stations (Aberdeen and Gillingham) and a testing pit at Kilmarnock
- 3 Vehicle Testing Station councils
- Signing of a Service Level Agreement
- 3 Account Managers trials
- Extended Enquiry Unit opening hours

Chief Executive's Statement

"A Year of Successful Delivery"

Stephen Tetlow
Chief Executive

2004/05 has been a successful second year for the Vehicle and Operator Services Agency (VOSA) with a good performance against our Secretary of State's Key Targets. This performance reflects improved delivery of customer services; new award-winning e-services; increased targeted enforcement; and solid achievement of our value for money plan.

Good delivery to our customers is key in helping them to be compliant with today's regulations. Examples of service improvements over the past year include the improved availability of HGV/PSV tests and the faster turnaround of operator licensing decisions. High MORI poll scores (79%-93% satisfaction levels) show we are on the right track with customers, but this does not mean we are complacent. Vehicle testing station councils, service level agreements and account manager pilots are all new initiatives this year, strengthening our ability to work with customers in the way we deliver and improve services.

Delivery of the new operator licensing self-service is a clear example of effective working together. I am delighted that VOSA won three awards for this new service which has been well received by operators. John Parry, Director of Engineering for Exel Logistics, said "This is an innovative step for the industry and will enable all operators to move in time with the rapidly changing demands of the sector". Well done to the teams involved: in particular the VOSA Licensing Self-Service team, HEDRA, Computa Center, Logica CMG, and PCL and, providing input from our customer base, FTA, RHA, CPT and Exel Logistics.

While the majority of our customers work within the set standards, there are still others who do not. "Better regulation" is a key government theme and the increased targeting of our enforcement activity is one way VOSA is delivering against this agenda. The successful expansion of Power to Stop and use of Automatic Number Plate Recognition (ANPR) means we can concentrate more on those who are not playing by the rules. Our limited resource can focus on serious investigations and we have had some key success in this area in the past year. MOT Computerisation has begun to roll-out operationally and this major change to the MOT scheme will improve our ability to enforce garage standards as well as enabling private motorists with older cars to relicense electronically.

Improved service efficiency and increased enforcement effectiveness against the investment costs of change is an ongoing balancing act. Not only have we delivered service improvement and more effective enforcement but I am pleased with the way the business has delivered against the first year of our 3-year value for money plan. We have achieved cost savings of £3.5million and a headcount reduction of 36. Further delivery against the value for money plan will come from change programmes which are looking radically at how we can transform the way we do business.

2004/05 has been another year of change, not least change at Board level with the head of Operations Bob Tatchell, moving to a role in the Department and former CEO, Maurice Newey, retiring. I take this opportunity on behalf of the business to thank them for their contributions to VOSA and to wish them the best for the future. Staff in the organisation have again risen to the many challenges and I thank them all for their continued professionalism and loyalty.

There is much to do, but delivery this year has given a solid platform. We will build on this to develop the vision and strategy for the next 10 years. This will ensure that in the years to come VOSA positively contributes to "safe and secure drivers and vehicles on our roads" whilst delivering excellent value for money.

Introduction

About this report

This annual report accounts for the performance of the Vehicle and Operator Services Agency (VOSA) from 1 April 2004 until 31 March 2005 and publishes the agency's statutory financial statements. It is the principal means for formally reporting to Ministers and Parliament.

Our target audience includes: the Department for Transport as owner and principal customer of the business; Traffic Commissioners; trade associations; vehicle owners and operators; MOT garages; vehicle manufacturers; importers and amateur vehicle builders; the media; the general public; members of other organisations interested in the Agency's work; VOSA staff and VOSA unions.

The report is laid out in two further sections:

- A narrative report on performance this past year - highlighting activity under our four business objectives including detail of performance against Secretary of State Key Targets. These are then summarised for ease of reference. The final element of this section provides a forward view.
- A financial review of the business presented through our statutory financial statements.

About VOSA

VOSA delivers a range of activities, which supports our customers' efforts to remain compliant with current and new licensing, vehicle and traffic legislation. We identify and target those who are not compliant, with a view to helping them become compliant or, in the extreme, stop them operating. Our overall purpose is embodied in our organisational aim:

Contributing to the improvement of:

Road Safety

Environmental Standards

The Reduction of Vehicle Crime

Through our work...

Licensing - providing administrative support to Traffic Commissioners in considering and processing applications for licences to operate heavy goods vehicles and public service vehicles (this ensures that licence holders meet the standards set for entry into the commercial vehicle operator industry and seeks to minimise the environmental and road safety impact around goods vehicle operating centres).

Bus Regulation - providing administrative support to Traffic Commissioners in the registration of bus services (in recognition of the differences in bus registration legislation in Scotland, where this function is devolved to the Scottish Parliament, we shall work closely with the Scottish Executive in ensuring that any relevant changes in law are incorporated into working practices).

Testing and Inspections - statutory annual testing and voluntary testing; specialist inspections e.g. certification of public service vehicles before they enter service; inspections of imported and amateur-built vehicles to ensure that they comply with acceptable safety and environmental standards (Single Vehicle Approval (SVA) and Motorcycle Single Vehicle Approval (MSVA)); inspections to check the identity of written off vehicles that are returned to the road, to ensure these vehicles are legitimate (Vehicle Identity Check (VIC)); and approving applications from operators wanting to run heavy goods vehicles at increased weights.

MOT - approving Authorised Examiners (AEs) and Nominated Testers (NTs) to provide MOT testing services; provision of statutory training for AEs and NTs; monitoring standards at MOT garages and tests, providing local seminars and other advisory services and, where appropriate, taking disciplinary action, to improve testing standards and raise levels of compliance.

Enforcement and Compliance - supporting Traffic Commissioners to help them make informed decisions on operator licensing, vocational drivers and bus registration requirements; identifying operators against whom it may be appropriate to take disciplinary action, by assembling and evaluating a range of compliance data and presenting it to the Traffic Commissioners; routine and targeted checks of operators' premises and systems designed to check compliance of vehicle fleets; targeted and random checks of vehicle roadworthiness and compliance with other road traffic legislation (e.g. Drivers' Hours) at the roadside and at operators' premises; administering the Vocational Driver Conduct system on cases referred by the DVLA and where vocational drivers have committed non-endorsable road traffic offences; enforcing compliance with the approved driving instructor scheme; and monitoring compliance of bus operators with their registered timetables.

Training and Education - provision of a range of educational and advisory activities at the roadside, at operating premises and on a one-to-one basis, publications and DVDs designed to promote improved compliance of operators and drivers; delivery of local seminars aimed at improving compliance of vehicle operators and drivers with roadworthiness and traffic regulations; and provision of commercial training courses and products, which complement our core business activities.

Collision Investigation and Technical Research - technical investigations by our Vehicle Safety Branch (VSB) into potential manufacturing or design defects, highlighting safety concerns, and monitoring safety recalls; supporting the Police by examining vehicles involved in collisions to identify contributory defects, including determination of whether a criminal act has been committed; providing information, through our accidents and defects databases, to manufacturers, the Police and DfT, to assist in identifying issues and formulating policy; and delivering a programme of research into new developments.

...we contribute to the strategic objectives of the

Department for Transport

Our strategy and the customers it supports

VOSA is accountable to the Secretary of State for Transport. Together with DSA, DVLA, and VCA we form **the DVO Group** reporting to the DVO Director General. Our Group mission statement has been developed over the year to read:

"promoting safe and secure drivers and vehicles on our roads"

Group strategy is based on three themes, covering:

- Better services to customers
- Better compliance
- Better value for money

Agency strategy supports delivery of the Group themes with the thrust of our strategy being to ensure we make a positive contribution to:

- Improved road safety
- Reduced vehicle impact on the environment
- Reduced vehicle crime
- Increased consumer protection
- Fairer operating competition

The strategic approach for VOSA business has continued to be the evaluation and reduction of the potential risk of unsafe and environmentally-unfriendly vehicles on the road and of unacceptable behaviour in respect of vehicle use.

Delivery of our customer services and enforcement activity supports the following people and organisations: the road haulage and public service vehicle industries; vocational drivers; MOT garages; private vehicle owners; vehicle and equipment manufacturers and importers; related trade associations; other government departments; local authorities; the Traffic Commissioners; the courts; the Police; and the public.

Our Organisation

Over 2,700 staff across England, Scotland and Wales, working in 6 Traffic Area Offices (TAOs), 100 Goods Vehicle Testing Stations, 23 Enforcement Offices, Headquarters in Bristol, and further offices around the UK.

VOSA Directing Board

Stephen Tetlow: Chief Executive (from 1 January 2005) **Maurice Newey CBE: Chief Executive (until 31 December 2004)**	
Jeff Belt FCMA: Finance and Process Director	**Bob Tatchell BA: Operations Director (until 20 July 2004)**
Bill Buckley: Licensing Director	**Linda Willson: Business Strategy and Corporate Development Director**
Hugh Edwards BSc (Eng), Ceng, MIMechE, MIRTE: Product Strategy and Policy Director	
Martin Jones MBA MCIPD: Human Resources Director	**Elizabeth Bertoya: Non-executive Director; Chair of Audit and Risk Committee**
Alastair Peoples: Operations Director (from 7 December 2004)	**Geraldine Terry: Non-executive Director**
Jeremy Rolstone: DVO Commercial Customer Director	**John Doran: Non-executive Director**

Overview of performance against our Key Targets 2004/05

Customer Services and Compliance

1.	To improve licence application turnaround times by determining 85% of unopposed applications within 10 weeks from the date of receipt of the application. (Page 10 refers)	Achieved
2.	To improve HGV and PSV test availability by offering a test appointment on or within 18 days of the requested date, 95% of the time. (Page 12 refers)	Achieved
3.	To maintain or improve levels of customer satisfaction against 2003 baselines. (Operators - licensing 78%, testing 73%; Fitters and Presenters - roadside checks 89%, testing 92%; MOT Customers 93%). (Page 27/28 refers)	4 out of 5 measures achieved
4.	To contribute to the improved compliance of the lorry, bus and coach industries (operators and drivers) through effectively targeted compliance inspections, penalties and advice as measured by Performance Gain points (2003 baseline of 8,295,459). (Page 16 refers)	Achieved

Financial Perspective

5.	To contribute to the DVO group 5% "Value for Money" target by delivering against an agreed VOSA "Value For Money" plan, achieving 2.5% efficiency and 2.5% effectiveness measures. (Page 40 refers)	Achieved

Investment Perspective

6.	As part of the DVO One Stop Service programme, develop a commercial customer portal delivering access to operator licensing self-service by May 2004, an e-payment facility by 31 March 2005 and development of self-service test bookings for implementation by April 2006. (Page 27 refers)	Achieved
7.	To have a robust MOT Computerisation system being rolled out nationally by March 2005. (Page 23 refers)	Delayed: commenced 18 April 2005
8.	To agree design templates for our estate modernisation programme and have completed 30% of phase one by 31 March 2005. (Page 37 refers)	Achieved

Services to the lorry, bus and coach industries

Business objective:

"To raise the compliance of the road haulage and passenger transport industries with licensing, roadworthiness, road traffic and environmental standards".

Our work within this objective has:

- **Allowed us a better understanding of collision causes**
- **Delivered a range of services to the lorry, bus and coach industries**
- **Improved our effective enforcement of regulations**

Better understanding of collision causes

Demand for our collision inspection service to the Police has increased in 2004 and we now work in close partnership with 47 of the 51 Police forces nationally when dealing with fatal or serious injury collisions.

DfT's targets for reduction in road casualties:

- a 40% reduction in the number of people killed or seriously injured (KSI) in road accidents
- a 50% reduction in the number of children killed or seriously injured (children are defined as being those aged under 16)

We cannot statistically show how our work is influencing these targets, but we are working to understand the relationship between our role and road casualties.

Work by our collisions inspection examiners primarily involves Heavy Goods and Public Service Vehicles (HGVs and PSVs) and we also undertake some private car and motorcycle examinations. We provide technical expertise in assessing the previous mechanical condition of vehicles as well as, where requested, providing support and assistance with drivers' hours analysis and assessment of vehicle records. Having a better understanding of the causes of collisions helps prevent recurrence, by allowing corrective measures to be put in place.

Our work in carrying out this activity not only contributes to a thorough and effective investigation but can be the catalyst for change. For example, we have recently published a leaflet on the maintenance and assessment of Automatic Slack Adjusters - produced as a result of a collision examination and subsequent court hearing which highlighted a lack of industry awareness concerning the timely maintenance and replacement of these components. For other examples, see our work on lorry-mounted cranes, stabiliser legs and container-securing devices on page 13.

To meet the increased demand for this service, we have increased the number of staff who have undergone extensive specialist training in vehicle collision examination techniques, preservation and presentation of evidence to 21 in this financial year. This training is specifically designed to allow our staff to work to the standards required in the Road Death Investigation Manual produced by the Police. As part of our ongoing commitment to this work, we are continuing to develop this training package and explore the benefits that new technology can bring to the collision investigation process. Our examiners are equipped with high-visibility, dual-purpose vehicle examination units, with the equipment and facilities to give our staff support with in-depth examinations of vehicles and the gathering and retention of evidence.

We have been working with other agencies and DfT to explore data held on collisions to identify those operators with the greatest risk of having a collision. A specification for investigative work with the Transport Research Laboratory (TRL), to establish if there is a connection between vehicle operator/operation and frequency of involvement in collisions, has been drawn up by TRL and there are ongoing discussions regarding links with other agencies.

Services to the lorry, bus and coach industries

Improved operator licensing and bus registration services

We provide administrative support to Traffic Commissioners (TCs) in processing operator licence applications, maintaining the records of licence holders, and maintaining a register of local bus services.

We successfully delivered our Secretary of State key target to improve licence turnaround times - processing 89.8% of unopposed applications within the target time of 10 weeks compared with 65.7% in 2003/04, with the national performance consistently above 85% since July 2004.

These positive results are notwithstanding a change in how we measure our service standard, which now starts on the day the application is received in any VOSA office, rather than the day when the application is considered to be fully complete. Following a targeted campaign focusing resources on the number of cases which are over 10 weeks old, there has also been a significant reduction in these cases - down from 540 at the start of the year to 276 by March 2005.

The issuing of licences is demand-led and numbers fluctuate over the years, but without any significant change in trends.

Volumes	2004/05	% change from 2003/04
HGV		
Operator licences in issue	101,857	-1.1%
Vehicles on licence	396,203	-2.8%
New licence applications	10,119	-4.2%
Variations to licence	9,333	-3.4%
Continuation of licences	14,076	+2.5%
PSV		
Operator licences in issue	8,726	+2.6%
New licence applications	1,317	-10.3%
Variations to licence	1,133	-21.5%
Continuation of licences	1,123	-6.1%
Bus permits issued	4,369	-3.7%
Live bus registrations	23,941	-0.9%
New bus registrations and variations	14,361	-3.0%
Cancelled bus registrations	3,190	-2.5%

VOSA staff administer the Scottish Parking Appeals Service (SPAS), handling appeals on behalf of motorists who challenge the penalty charge notices issued for parking offences by local authorities in Scotland. The number of local authorities who use the appeals service has risen to 6 and now include South Lanarkshire, Edinburgh, Glasgow, Perth, Aberdeen and Dundee. The total number of appeals processed this financial year has fallen by 26% to 2,330 due to local authorities reviewing their internal procedures and dealing more effectively with the initial request to have the charge waived.

Improving Customer Services

This year we made further improvements to our core licensing services through a number of approaches - including streamlining processes and more proactively monitoring workflow and performance.

Our major success this year has been the launch of Operator Self-Service for both HGV operators (commenced April 04) and PSV operators (commenced November 04). As a result of this, operators are now able to go online and:

- Access details of their operator licence record
- Track the progress of their applications
- Add and remove vehicles from their own licences

For both the HGV and PSV trade we adopted a controlled-release approach, initially targeting larger operators and those who had already expressed an interest in Self-Service; mailshots then followed to all operators.

In June 2004 the service was awarded runner up of over 110 entries in the Government Computing BT Syntegra awards for innovation in the category "Best project - Government to Business"; the awards are designed to celebrate and recognise the best innovations in e-government.

In July 2004 the Parliamentary under-Secretary of State, David Jamieson, officially launched the service, by which time 6,000 operators had registered.

At the e-Government awards in January 2005 the system took the top award, winning the e-Government service uptake: “Excellence in usership / user growth”. The project team also won the e-Government excellence team award.

Operator Self-Service has received positive feedback from users throughout the year, with comments such as the system is "easy to use" and "user friendly", and that it is proving to have "great time saving benefits" for the users. In March 2005 over 40% of all vehicle change transactions were carried out online and over 13,000 operators have registered for Self-Service.

‘User friendly. Definitely quicker and easier than handwritten forms. Seems to be less of a wait for discs to arrive and I know the traffic area has definitely received the information, whereas before requests didn't always get to their destination. Very impressed so far.’
Calor Gas Ltd

The pilot of the extension of payment channels for licence transactions to include payment by credit and debit card began with South East and Metropolitan Traffic Area (SEMTA) in August 2004. In mid-December 2004, following its success, the pilot was expanded to include operators administered by the Eastern Traffic Area and phased introduction continued through to March 2005, when telephone processing was completely transferred to our call centre. Regular users have commented that it has been generally well received and is seen as a valuable tool for simplifying and speeding up the processing of fees payments and the generation of associated licence documentation.

An easier bus registration system has been developed, to help the bus industry transfer bus service information electronically in a consistent way, and will be used to enable operators to register bus services with VOSA and copy details easily to local authorities. It can also be used by bus operators or authorities to transfer details of large numbers of bus services between local authorities/passenger transport executives, operators and Traveline.

The design and build has been complex and subject to several changes and subsequent delays. However, the pilot with bus operators is expected to start in summer 2005. Further developments in electronic delivery of our services can be found in the third chapter where we discuss the Commercial Customer Portal.

Improved vehicle testing services

HGV and PSV test availability improved again compared with the previous year:

We succeeded in booking 99.7% of HGV tests and 99.9% of PSV tests within 18 working days, with a high proportion of stations recording a 100% performance, thus delivering our Secretary of State Key Target to offer a test appointment on or within 18 days 95% of the time.

We also gather data on the number of working days before each Goods Vehicle Testing Station has 5 test slots available on a single day and over the year 57% had 5 slots available within 5 working days and a further 39% within 10 working days. These positive results are despite some test station closures for rebuilds, and continuing recruitment problems in certain areas of the country. However, we have had some improved success in recruitment compared with previous campaigns, following closer analysis of these campaigns and subsequently better and more appropriate local targeting.

Operators were surveyed at two DVO operator workshops and a specific question was included in the 2004 Drivers, Fitters and Presenters survey, particularly on our forward booking time standard. Survey results indicate a 14% increase in satisfaction on lead time for test bookings, with the Drivers, Fitters and Presenters survey showing a 10% increase.

During in-depth interviews with the three main trade associations (RHA, FTA and CPT), the interviewees were also specifically asked whether "forward booking time" is the best measure of customer service, and although they acknowledged that appropriate test booking times still need to be maintained, there are clearly other aspects of test availability that are also important to the trade, such as the establishment of dedicated times for re-testing, the scope for extended opening hours, and the scope to offer a test appointment on demand. As a result of these discussions with the trade, and recommendations from a range of surveys and workshops, we have since amended our Key Target for 2005/06 to encompass a broader scope of customer needs.

When carrying out annual tests on HGVs and PSVs we measure the activity through output units (OUs), where one output unit equates to one hour of vehicle testing. For example, carrying out a test on a four axle motor vehicle equates to 1.41 of an output unit while a two axle motor vehicle test only takes 0.75 of a unit. Monitoring total OUs enables us to ensure that we have the appropriate resource in place to manage the throughput of work, and to maintain an efficient service to the operator.

Output Units	2004/05	2003/04	2002/03
HGV statutory testing	700,152	678,973	675,794
PSV statutory testing	104,841	104,446	103,436

There has been a 3% increase in HGV OUs compared with the previous year, reflecting a continuing trend of movement to multi-axle motor vehicles and trailers.

Working towards safer, more environmentally friendly vehicles

Our testing standards, policy and strategy team continue to review the content and quality of the annual test, ensuring clear and consistent standards, while also considering value for money. We check that the test reflects current and new legislation, exploits new technology, and incorporates findings from the work carried out by our collisions investigations team. Some of the developments that have taken place this year are summarised as follows:

- **Seatbelt check** - preparatory work has taken place, in order to be in a position to incorporate a check on seatbelts fitted to forward-facing seats in HGVs into the test towards the end of 2005/06.

- **Lorry-mounted cranes and stabiliser legs** - a serious incident involving the accidental deployment of a stabiliser leg on a vehicle resulting in some serious injuries to pedestrians has accelerated the introduction of this item into the annual test. The check will be introduced in April 2005, following discussion with trade bodies and operator representatives. Additionally, a test standard and procedure to allow a check of lorry-mounted cranes and loading arms, to ensure they remain in the parked position when not in use, will be investigated for 2005/06.

- **Twist locks** - work to agree a test procedure and standard took place during 2004/05, resulting in a test for shipping container location and locking devices (twist locks) being incorporated into the annual test for HGVs from 1 April 2005.

- **Reduction of threshold for testing of road speed limiters** - following a change to European legislation, which was incorporated into UK legislation, goods vehicles with a design weight exceeding 3,500 kg and passenger vehicles with more than 8 passenger seats are now required to be fitted with a road speed limiter. The age of the vehicle and how it is operated (either solely on domestic routes or used for international journeys) will determine the date when the vehicle needs to comply, and when the annual test will include a check of these items. We have made information available through leaflets, our *Moving On* magazine, and our website, to help operators understand how the changes will affect them, in preparation for the major impact on testing these vehicles from January 2007 onwards.

- **Headlamp aim** has been a leading cause of test failure for HGVs and PSVs for the last two years. In order to address this, we have agreed a number of changes to existing practices and have enhanced our education levels to the presenters and operators, including:

  - rectification of defects
  - review of contracted maintenance arrangements
  - publication of a headlamp aim leaflet and video
  - research into new headlamp technologies

  We worked with the garage equipment industry to develop an agreed specification for headlamp aim testers capable of measuring aim on all types of modern lamp units, as well as existing lamps. This new specification applies to HGV, PSV and light vehicles and was published on 9 May 2005.

- **Low emission diesel research** - oxides of nitrogen, carbon monoxide, benzene and particulates impact both our health and the environment. In response to the introduction of low-emission diesel vehicles, we completed a research project into equipment and techniques to test for low emissions from heavy and light duty diesel-engined vehicles. The report and its recommendations are currently being considered by VOSA and the DfT. A copy of the report can be found on our website.

- **Telematics** are on board systems that provide the facility to capture key vehicle metrics and transmit them to a central point for analysis. We are participating in the Bank of Scotland Corporate's project, one aspect of which involves developing these systems for fleet management purposes. Within the project, for a limited number of vehicles, we have agreed that where telematics can be used to demonstrate aspects of vehicle safety, the periods between preventative maintenance safety inspections may safely be extended. Operators who are willing to make the initial investment for the equipment can benefit from more efficient use of their vehicles, providing they are able to meet the prerequisites (for example, the concession will not apply to vehicles more than two years old during the trial and they must be maintained in accordance with the manufacturer's specifications). Furthermore, the project will be exploring the feasibility of obtaining a complete set of available pre-impact data in the event the vehicle is involved in a collision. Consultation with the trade has already been carried out. Development of the necessary infrastructure for the project as a whole is well advanced and collection of data and monitoring of the results should start later in 2005/06.

- **European Community Whole Vehicle Type Approval** (ECWVTA) - from 2009 it will be mandatory for almost all large passenger carrying vehicles, HGVs and trailers to have type approval, either through ECWVTA or through a system of national requirements based on those for ECWVTA. In the early part of the year our IT partners, ATOS Origin, were commissioned to conduct a feasibility study of the IT support arrangements. We also worked closely with VCA on an analysis of the technical requirements, which in turn led to an initial estimate of the time required for an inspection of different vehicle types. The analysis also provided information about the equipment and facilities required. All this information was brigaded into an initial model of the fee structure and level. This model will be validated (and amended as necessary) following the survey of a sample of vehicle manufacturers and body builders during the next financial year.

Improving vehicle safety through effective defects and recall work

This year there were 269 recalls - the highest ever - involving some 830,000 vehicles, of which about 25% were initiated by VOSA. Our Vehicle Safety Branch took forward 363 reports of safety defects, 48 of which led to the recall of over 130,000 vehicles, 48 led to production changes and 24 led to improved service measures.

The overall response rate for recalls exceeded our target of 90% by 2006, reaching an all time high of 90.69% - an increase of over 3% on the previous year. This is due to our Vehicle Safety Branch raising awareness in the UK and Europe automotive sectors of product safety legislation and the obligations on both producers and enforcers.

We are preparing for new regulations because changes in the EU General Product Safety Directive require member states to put into place a process to deal with safety defects and unsafe products. Our seven voluntary Codes of Practice on vehicle safety defects have been reviewed with the Trade Associations and DfT and work has been undertaken to understand further the implications for the manufacturers and the effect of this legislation. This has involved meetings with major manufacturers to promote understanding and compliance and with all Trade Associations representing component, bicycle and tyre manufacturers. We anticipate the Code launch will coincide with the entry into force of the amended General Product Safety Regulations which is expected on 1 October 2005, in which VOSA is recognised as the Competent Enforcement Authority for the UK automotive sector.

Improving our contact with customers

We carry out a wide range of educational and advisory work to encourage operators to act in a compliant manner. Our support to the trade is through a number of approaches, including seminars, commercial training, visits to operators' premises, and publications.

New seminar programme a success

We ran our first seminar programme for commercial vehicle operators this year. The programme was based on the European Working Time Directive and involved 1,049 delegates attending 29 seminars from September to November 2004. Following the success of this work, we now have plans in place for Digital Tachograph seminars commencing March 2006.

In addition to the seminar programme, we carried out technical training at both regional and operators' own premises, covering a range of topics including the basic inspections standards and procedures course, drivers' hours, and air brakes. In particular, we worked closely with companies such as Arriva, First Bus and Royal Mail to deliver consistent training to large numbers of staff as part of their company training plans.

New *'Safe Operator's Guide'*

This year we have worked on a new best practice guide to help operators ensure the safe and legal use of all goods and passenger carrying vehicles. The *Safe Operator's Guide* was compiled with Trade Associations and the Traffic Commissioners and is available for both new and established operators. It aims to ensure compliance with all aspects of road traffic legislation, including drivers' hours regulations, driver licensing, and operating within maximum permitted weight limits. The guide became available in January 2005 and is intended as a sister guide to the *Guide to Maintaining Roadworthiness*.

Increased demand for newsletter: *Moving On* is our quarterly newsletter sent to all lorry and bus operators. It includes articles on a range of topics relevant to operators, including material from other agencies. Through it, we aim to provide helpful and friendly advice to assist the trade to work within the law. In response to demand, we increased publication from two to four times a year from this year. Key articles in 2004/05 have included:

- New laws on dangerous goods
- Accessibility regulations
- New enforcement tools - Power to Stop, ANPR
- Transport energy best practice

Consistent with our practice of listening to the customer's needs, we will ensure that future editions of *Moving On* continue to incorporate feedback received from the trade.

'May I say that I have always been an enthusiastic supporter of 'Moving On' but the latest issue is the best yet. Well done!'
Geoff Day, Freight Transport Association

Effective enforcement

Our enforcement activity at the roadside and at operators' premises is important in our work to ensure the continued safety standards of vehicles and drivers on our roads. Through developing technology and sharing information with other agencies and groups, we aim to improve our targeting of operators who pose the greatest risk - those who commit serious offences or are serial offenders.

Meeting our targets

The Memorandum of Agreement (MOA) with the Department gives us an annual set of targets for our enforcement activity. We are required to achieve total target volumes of activity (as measured in Performance Gain (PG) effectiveness points) and minimum numbers of specified inspections.

Our targeted objective in enforcement and 'O' licence work is to improve roadworthiness compliance through random spot checks and targeted operations, checking drivers and vehicles both at the roadside and at operators' premises. Checks at operators' premises include ensuring that operators are complying with the terms and conditions of their licence. This can involve checking records on drivers' hours and vehicle weights as well as maintenance records.

We met all but one of our objectives within the MOA, light vehicle emission checks being 9% below objective, although we increased spot checks for roadworthiness. The number of HGVs we checked at the roadside increased by 1.8% (from 96,096 to 97,831) last year. The overall prohibition rate increased from 22.7% to 24.2%. For PSVs the number of spot checks decreased to 17,746 (from 20,007) but the prohibition rate increased from 15.2% to 16.0%.

In total we exceeded our total PG points objective by almost 11%, thus delivering one of our Secretary of State key targets

Through our traffic enforcement activity at the roadside, we are able to identify unsafe drivers.

This year we saw the conclusion year of a major court case against a Northumberland-based haulage firm. The owners of the business were found guilty of long-term management disregard for regulations covering drivers' hours and rest periods, and subsequent widespread practice of falsifying tachographs (within the trial there was evidence of drivers working 48 hours with only a four or five hour break). Two of the three owners were sentenced to jail, with all having to pay costs, and their licence was revoked.

Partnership work with the police and other agencies aids effective targeting.

In June 2004, we ran a 24 hour check in conjunction with Cumbria Constabulary as part of a joint effort into casualty reduction. Cumbria has the 5th highest road death rate in the UK and over recent year, 50% of all road deaths in Cumbria have involved an HGV.

The operation was run at our check site at Harker near Carlisle, and Carlisle Goods Vehicle Testing Station (GVTS). In total, 119 vehicles were stopped with the following offences identified:

5 overweight vehicles
8 drivers' hours offences
13 brakes offences
12 tyre offences
1 speed limiter offence
1 hazchem offence

These results are evidence of the success of our existing enforcement practices and we would expect to see this success grow in the future as we roll out our Mobile Compliance Devices (MCD), and make full use of the targeting framework, Operator Compliance Risk Score (OCRS), and Digitach. Last year saw major developments in all of these initiatives contributing to our ability to carry out more effective and better targeted enforcement work. We are on track to deliver many of these projects in 2005/06. Further details are provided later in this chapter.

50 vehicles now equipped for Power to Stop

Following the successful pilot in 2003/04, by the end of March 2005 VOSA had been accredited by 35 of the 43 police forces in England and Wales, thus further reducing our dependence upon Police support. In the early part of 2005/06 a further two forces accredited us. The Association of Chief Police Officers in Scotland (ACPOS) has signed a protocol agreeing that we can stop vehicles (subject to legislation). Since we first received accreditation to stop vehicles we have recruited 23 Enforcement Support Officers and trained existing examiners, deployed with 50 vehicles now equipped to carry out this work. The use of Power to Stop has already increased our flexibility in the accredited areas - for example, through increased out-of-hours checks and targeting high-risk vehicle groups.

Impounding

In line with our aim of targeting the minority of serially non-compliant operators, impounding continued to be an important enforcement activity in 2004/05, when 187 vehicles were impounded due to illegal operators working outside the 'O' licence regime.

Optimising intelligence and technology

2004/05 saw major developments in our work on improving exploitation of intelligence and further advances in targeting technology in order to deliver more effective enforcement and to move further towards our aim to minimise disruption for compliant operators. A number of tools are in development that will ultimately complement each other in enabling more effective targeting.

Extended VOSA Intelligence Unit: we have completed a pilot combining the former VI Intelligence Unit and TAN Compliance Unit. The pilot was extended from 3 to 9 months to enable sufficient cases to be submitted to the Traffic Commissioner (TC) for consideration and proper evaluation. The aim of the new Intelligence Unit is to improve the quality of our enforcement intelligence and casework thus ensuring continued appropriate support to TCs, protecting their independence.

The pilot identified a number of benefits, including:

- A reduction in the number of routine requests to the areas. This has enabled area office staff resource to be freed up to concentrate on effective targeting.
- Many operator licence variation requests are now processed within the Intelligence Unit and, where no adverse history is identified, requests are returned to the Licensing team within a few days.
- Public Inquiry statements from the area offices now contain a complete history of the operator rather than being traffic enforcement- or roadworthiness-specific.
- Reports are of a higher quality and give a far better balanced view.
- Area offices are now corresponding with operators, following unsatisfactory reports from the enforcement staff. This enables an improved/informed recommendation to go back to the Unit.

Findings from the pilot are being assessed and future strategy agreed early in 2005/06.

Targeting Framework - this will aid better targeting of the non-compliant by enabling a more structured approach to intelligence gathering, assimilation and processing. It is based on the National Intelligence Model (NIM) used by all police forces and other major enforcement agencies. It provides a greater consistency across our enforcement areas and enables strategic focus on key business priorities.

Operator Compliance Risk Score (OCRS) - this is a system used to calculate the likelihood of non-compliance of a vehicle/operator. Historic OCRS uses data we currently hold on such items as test history, roadside and fleet inspection encounters and prosecution results. Predictive OCRS will use such information as fleet size and age and type of operator licence. By displaying the OCRS at the roadside on the Mobile Compliance Device (see below), the Enforcement Officer will be able to make an informed decision on the risk posed by the operator and their vehicle.

By the end of the year, User Acceptance Testing of historic OCRS for both roadworthiness and traffic enforcement was well under way. Early tests using Automatic Number Plate Recognition data support the project objective of doubling the hit rate by targeting non-compliant operators. Predictive OCRS is in development and early results are encouraging.

Strategic Analysis Unit (SAU) - this has been set up to provide analysis of all types of data, both internal and external, to highlight trends, hotspots and themes. The Unit will produce analysis that will complement the work resulting from the Targeting Framework and OCRS, by focusing attention on the non-compliant operators and will help ease the burden on the compliant.

Mobile Compliance Device (MCD) - we have made good progress on the development of the hand-held Mobile Compliance Device for instantly accessing and inputting intelligence and data at the roadside. Users can now access the central server for online enquiries without the need to connect to a land line or docking station. Feedback from front-line Enforcement staff in the second phase of the project has been very positive. We have actively communicated the detail of the solution to Trade representatives and bodies; Enforcement Areas; conferences; and other agencies throughout the year.

The next phase of this project is to provide a platform for Targeted and Digital Tachograph Enforcement and Fixed Penalties. Roll out of handheld devices to Enforcement Officers will be completed by the end of 2005 with full deployment by March 2006.

Automatic Number Plate Recognition (ANPR) - a trial to assess the value of using mobile units for tactical targeting at road checks was completed in January 2005, an evaluation of which will inform future plans for the deployment of this technology. Project plans for the next phase include a proposal that will enable us to access ANPR and Weigh in Motion Sensors (WIMS) data from a number of sources to support strategic targeting. We are already heavily involved in MAAST (Multi Agency ANPR Strategy Team) which aims to join together the ANPR capabilities of as many agencies as possible looking at combining all ANPR resource at national level.

Sharing technology …

Highways Agency and VOSA are working on a trial in the West Midlands, linking ANPR cameras with Weigh in Motion Sensors. Vehicles which are identified as a probable overload can be brought into a weighbridge check site for verification and possible prohibition. As the system captures data 24/7, it can help us to establish which routes or areas are more likely to be used by overloaded vehicles, thus allowing us to strategically deploy our staff and resources at the most effective times and locations. The trial is running until August 2005, when we will evaluate the success of this approach, and plans for future extended use of this combined technology will be consolidated.

This year we have reached an agreement with ACPOS to access data from their Scottish camera network. Initially, this will take the form of a six month pilot, during which time we will evaluate the data's effectiveness. We also obtained agreement from Kent Police to receive data feeds from their network, including the Dartford River Crossing, and agreement was also reached to install an ANPR system at the Tyne Tunnel in partnership with the Tunnel Authority.

… and expertise

During Implementation Digital Tachograph (IDT) Plenary sessions in September we invited delegates to spend a further day looking at some of the enforcement techniques and tools currently in development. The delegates included enforcers, lawyers, policy makers, and representatives from the EU Commission and the vehicle and tachographs industries. The day was a complete success with 100 participants attending from virtually every EU member state. They were given the opportunity to attend a major road check, and to see various demonstrations and static displays. One of the main aims of the day was to highlight awareness of a risk-based approach to targeting enforcement.

Working together on policy

We work closely with the rest of the DVO group and the Department on a number of initiatives. This year has seen progress on a range of projects, in particular:

Dangerous goods security checks - from July 2005 we will be responsible for conducting security checks of premises where dangerous goods are stored, as well as ensuring that vehicles and drivers are compliant with the regulations. Throughout this year, we have continued to work closely with DfT and the Home Office to develop the implementation programme, including the selection and training of specialist staff and producing leaflets to help inform drivers at the roadside.

Graduated Fixed Penalties and Deposit Scheme (GFPDS) - we have continued to work closely with DfT and the Police in developing this scheme, the framework of which was outlined in a consultation document published in July 2004 and which received good support from all respondents, including Trade Associations and driver unions.

We have been working on recommendations for the detail of the scheme. This work includes putting offences into 'bands' and making recommendations on penalty levels. Delays in introducing the Road Safety Bill mean that we are now working to a revised implementation date of January 2007.

Digital tachographs - further preparatory work for the introduction of the new digital kit has taken place, including staff training, tools for checking drivers' hours compliance at operator premises and at the roadside, and detection of fraudulent use of smart cards.

Services to private vehicle owners

Business objective:

"To improve the roadworthiness and environmental standards of private motor vehicles, and to contribute to the reduction of vehicle-related crime".

Our work within this objective has enabled:

- **Delivery and improvement of the MOT scheme**
- **Delivery of light vehicle and specialist inspections**
- **Advances through vehicle testing research**

Delivery and improvement of the MOT scheme

Through our supervision of the MOT testing scheme for private motor vehicles, we ensure compliance with prescribed minimum standards at the time of the test and seek to raise the general level of compliance. There are around 18,700 MOT garages in service and this year approximately 1,100 applications by Authorised Examiners (AEs) were approved. The number of tests carried out by MOT garages has continued to increase gradually year on year with just over 30 million annual tests carried out this year.

We carry out routine and targeted checks on MOT garages to monitor standards of the site and the test. This year we carried out in excess of 52,000 checks - a similar number to 2003/04 - with 77 AEs withdrawn and 149 Nominated Testers (NTs) disqualified, following appeal. There were 30% fewer appeals and complaints against test results than the previous year, either directly from the public or indirectly through Trading Standards.

In order to ensure that AEs and NTs are trained to a standard that ensures accurate, consistent and fair administering of the MOT test, we are responsible for the compulsory training of all AEs and NTs. Courses take place across Britain and this year we delivered refresher training for over 13,000 NTs.

Service standards supporting the MOT scheme	% outturn
Provide NT training courses within 20 working days of receipt of applications	100%
Issue MOT pads on receipt of request or next working day	99.4%

Improvements and enhancements to the running of the scheme are detailed in the following paragraphs.

Motorcycle Refresher Course - in conjunction with the introduction of MOT Computerisation, work has been carried out towards delivery of a Motorcycle Refresher course, which was then piloted in January 2005. Following the download of motorcycle tester details from the MOT Computerisation system, the new course will become part of the training itinerary in 2005/06.

MOT Re-Test Review - we conducted research on the current retest rules and are proposing a 3 tiered approach that will allow partial retesting in the MOT scheme similar to the way we retest lorries and buses. A full public consultation exercise started in March 2005 and, if there is widespread support, implementation could begin in August 2006.

In February 2005 we reviewed the possibility of rating MOT test stations and testers, and what a rating scheme might cover. In March 2005 we concluded that more work should be carried out in partnership with those in the MOT trade who already have experience in managing a rating system within a garage based environment.

This year we increased our training premises by 10 sites (6 now complete, 4 ready by summer of 2005) to accommodate an increase in the training required for Nominated Testers;

an appropriate amount of time allocated to the practical element of courses; and to include additional training specifically related to MOT Computerisation.

Working in partnership with the MOT trade, their representatives and the Automotive Skills Council, we completed a feasibility study in October 2004 into the future provision of more comprehensive tester training. This study identified 3 options:

- enhanced VOSA-only provision
- VOSA to develop a suite of courses to be delivered by independent training organisations
- VOSA to move away from training and measure outcomes only.

We are continuing our work with the Trade to explore the available options, identify risks and issues and analyse the benefits to testing standards.

Meeting with our customers ….

We carried out 135 MOT seminars with around 10,800 delegates attending this year. The theme was 'Bringing the Changes' - embracing the challenges of ever-changing technology and how we are working closely with equipment manufacturers to ensure that the equipment is fully operational before installation. The delegates, predominantly AEs and NTs, were particularly interested in understanding more about Automated Test Lanes. Of the 30% of respondents, 98% felt that the seminars were relevant and worthwhile.

This year we also trialled three Vehicle Testing Station Councils in Birmingham, Manchester and Gatwick, in response to suggestions made at Trade Awaydays as an informal way of exploring ideas and views on current and future MOT testing initiatives. These Councils usefully complement our normal consultation mechanisms. Topics discussed included Nominated Tester training, Automated Test Lanes and retest procedures. These councils have proven to be successful in not only allowing us to provide education and advice to the trade, but also enabling us to benefit from our customers' knowledge and experience, and feedback we received was excellent. We are currently analysing the data and will shortly be forming sub-groups of the Councils to take some of the ideas forward. Next year, we plan to run a further seven councils with a subsequent evaluation to consider possible expansion across the country.

… and keeping in touch

In 2004/05 four quarterly issues of *Matters of Testing* were produced. The first three issues were accompanied by the *MOT Matters* video. Following feedback from readers, we have now replaced the video with a DVD.

The videos and DVD included the following subjects:

- *Rough Ride* - a motorcycle video about steering and suspension
- *How Can We Help?* - an introduction to VOSA's Swansea-based enquiry unit
- *Get I.T. ready* - this video takes you through each stage of MOT computerisation
- *What's This?* - the first DVD looking at trikes and quads

The purpose of the newsletter is to keep those in the testing trade informally updated about matters that could affect them, as well as establishing regular contact with the garages. The newsletter gives the readers a chance to share testing tips, new ideas and opinions.

MOT Computerisation

The major improvement in 2005 is the MOT Computerisation project, the single biggest change to MOT testing since the scheme's inception, 40 years ago. Benefits remain as stated in the Business Plan. Prior to full field trials including over 1,000 garages, the computerised system went through 2 testing and trial stages designed to test system functionality and operation in the 'live' garage environment. Results from these trials meant that changes to some elements of the system functionality and the roll out process were required. The full field trials were therefore not started until 7 February 2005.

Operational roll out commenced on 18 April 2005 following the completion of full field trials. This meant that we narrowly missed the Secretary of State Key Target date of March 2005. As stated in the Business Plan, progression of the programme has not been date-driven, but by the need to ensure a reliable and robust system.

A redesigned operational roll out takes into account feedback from all the garages involved in the trials and is geared to ease the transition to the new system and a robust service. Implementation for each garage is designed to ensure they are trained, equipped and ready to move into the computerised system before switching them over. Helpdesk service was improved to include dedicated training advisers, and additional back up processes if needed. Minor amendments to how the system is used will be implemented to offer garages more flexibility in providing their MOT service. Roll out continues at a controlled rate through a tightly managed process to ensure service levels are maintained. The majority (80%) of garages surveyed by MORI after the first 6 weeks of live service, reported that they found the system easy to use. Roll out effectiveness will be formally reviewed in the early summer.

Motorists going for an MOT test in the coming months may find the process takes a few minutes longer while garages familiarise themselves with the system. Motorists will be given an explanatory leaflet with their new style test certificate.

Delivery of light vehicle and specialist inspections

Just under 12,000 class 4, 5 and 7 Light Goods Vehicle (LGV) tests were carried out at our test stations compared with just over 13,000 in the previous year. The majority of LGV tests are still carried out at private garages. We carried out a similar number of roadside checks on LGVs compared to the previous year but achieved a higher prohibition rate - 46.6% compared with 35.4% in 2003/04, reflecting our ability to target better.

The Single Vehicle Approval (SVA) scheme is a pre-registration inspection for cars and light vehicles that have not been type-approved to British or European standards, including amateur-built vehicles and vehicles using new parts or those from previously registered vehicles. The main purpose of the check is to ensure that these vehicles have been designed and constructed to acceptable safety and environmental standards before they can be used on public roads.

The Enhanced Single Vehicle Approval (ESVA) scheme covers commercial imports of non-type-approved cars and light vehicles.

The overall number of applications was slightly lower than the previous year. However there was a significant shift from standard SVA to enhanced SVA examinations. This was as a result of a change in the legislation which came into effect on 1 April 2004, closing a loophole that had previously enabled almost all commercially imported vehicles to evade the enhanced requirements. The enhanced test applies tighter technical standards in eight key areas to ensure that vehicles meet similar environmental, basic safety and security requirements as required on other vehicles approved to European standards for use on our roads.

Numbers of examinations	2004/05	2003/04
SVA	13,751	33,572
ESVA	17,071	3,464
MSVA	6,401	2,527

This year we also worked closely with DVLA and DfT on closing a further loophole where certain vehicles were temporarily presented as motor caravans or minibuses in an attempt to circumvent the SVA route. We ran seminars and undertook inspection services with DVLA in order to assist them in closing the loophole.

Motorcycle SVA, covering motorcycles, mopeds, trikes and quads, was introduced in August 2003. A complementary partial MSVA test was introduced subsequently to provide a low cost means of meeting DVLA requirements for vehicles which have full European Type Approval but do not meet GB standards regarding road specific equipment (headlamps) and correct marking of speedometers. Volumes showed an average increase of 65% when compared to the equivalent period during the previous year (August - March inclusive).

Since establishing the link to Interpol's Stolen Vehicle database in January 2004, 20 applications to register through the SVA scheme have identified stolen vehicles. A protocol agreement between us and the Police has since been revised to include follow-up action for applications involving a stolen vehicle.

By last year, vehicle crime (thefts of or from vehicles) had dropped from the highs of the mid-1990s to 0.9 million. Vehicle crime accounted for 15% of all recorded crimes in the year and 282,816 cars were stolen in England, Scotland and Wales - 10% down on the previous year. Our work contributes to the Home Office Public Service Agreement (PSA) to reduce crime by 15%, and further in high crime areas, by 2007/08.

Vehicle Identity Check - the main purpose of the Vehicle Identity Check (VIC) is to help combat vehicle crime by deterring 'ringing', a practice where the identity of a stolen car is replaced with that of a written off or scrapped vehicle. The scheme was introduced in 2003 and ensures that all cars notified to DVLA as written off are subject to a VIC before DVLA will issue a replacement registration certificate or vehicle licence reminder. The VIC confirms that the vehicle being presented and returned to the road is the original vehicle.

To ensure that the VIC scheme is viewed as an effective deterrent, it is essential to have a robust system in place where suspicious cases are followed up by the Police. A Protocol Agreement with the Association of Chief Police Officers (ACPO) provides the foundation for this. The review and subsequent development this year of the Agreement will ensure that reliable, consistent and timely arrangements continue to be provided for such cases.

Although initial volumes were far lower than originally anticipated, in the second year of operation, volumes have increased considerably, by over 17,000 to almost 45,000 checks. The main reason for this is the successful implementation of the revised Motor Insurers Anti-Fraud and Theft Register (MIAFTR) which provides data to DVLA to support the VIC scheme. A notification from the Register triggers the requirement for a VIC. Towards the end of 2004, an enhanced system, 'MIAFTR2', replaced the existing database. Levels of demand have subsequently increased significantly as MIAFTR2 is able to supply the DVLA with a greater range of more accurate data.

Advances through vehicle testing research

We are constantly checking for changes in vehicle technology, and the equipment used to test it, both of which are advancing at a significant rate. Our work in research and development supports our aim to improve roadworthiness and environmental standards, through modern methods of testing. Progress this year has included:

Automated test equipment - Phase 2 of a trial comparing automated test equipment with the standard, two-person method was completed in November 2004. The concept was approved and, as a result, we have developed a suite of equipment specifications in conjunction with the Garage Equipment Association and trade representatives. The resultant Automated Test Lanes (ATLs) will deliver greater consistency of test as well as more efficient utilisation of staff. ATLs incorporate much of the standard testing equipment, as well as such items as wheel play detectors, brake performance tests, inspection mirrors, headlamp aim and suspension testers and a brake pressurising tool. By the end of the financial year, the specifications, Inspection Manual, and MOT Testing Guide pages were nearing completion, ready for approval and introduction to the scheme in September 2005.

Improved headlamp aim equipment - we developed a new specification for car and motorcycle headlamp aim test equipment during the year, with the help of the Garage Equipment Association and the MOT trade. This specification was finalised in March 2005 for introduction in the second quarter of 2005. The new equipment will be capable of accurately assessing the aim of modern, complex headlamps. It was also agreed during the year that we would relax our 'no repair during test' rule to allow adjustment of headlamps, rather than require customers and garages to be unnecessarily inconvenienced.

Onboard diagnostics - we are taking part in a two year project (Initiative for Diagnosis of Electronic Systems) to recommend a way forward for future interrogation of car on-board diagnostic systems. Working closely with German and Spanish colleagues, significant field trials have taken place and a standard test method has been drafted. Following completion of the project in summer 2005, a report is due to be presented to the European Commission and Comité International de l'Inspection Technique Automobile (CITA) by the end of the year.

We are also working closely with car manufacturers to check for correlation between on-board diagnostic fault codes and in-use tailpipe emissions. Field trials have been completed and a report submitted to the DfT. Our work identified a number of issues that require resolution. These issues will be addressed by discussion with the Department to agree our next steps.

Modernising our services

Business objective:

"To work with DVO group members and other partners to provide customers with a choice of modern, accessible and user-friendly services".

Our work within this objective has covered:

- **Progressing customer strategy**
- **Building on customer relationships**
- **Improving effective partnership working**

Progressing Customer Strategy

In support of the DVO's Customer Strategy (for One Stop Service), we have made further progress in developing the DVO Commercial Customer Programme to streamline our support services, replacing systems wherever possible with electronic, self-service methods.

During the year, work progressed well on the Commercial Customer Portal, e-test booking and the DVO e-payments solution for commercial customers with contracts signed in December and each project is on course for delivery in 2005, thus achieving our e-delivery Secretary of State Key Target.

A brief summary of developments within each project is included below:

- **Commercial Customer Portal** - following a feasibility study in 2003/04, we have made significant developments in this area and are on target to have the Portal available to the public by the end of 2005. Through the Portal, operators will be able to book their HGV and PSV test online. We are working with other DVO agencies who will be providing more services on the Portal in 2006, specifically DSA's Integrated Register of Driver Trainers and DVLA's fee paying enquiry service. During the year, we have held meetings with Trade Associations and workshops with operators to involve them in the development of the Portal and ensure that they are kept fully informed of our plans for One Stop Service.
- **E-Test Bookings** - we are on target to complete preparatory work to enable users to choose a convenient time and location for a wide range of vehicles to be tested and to book test appointments online, whether for single vehicles or bulk bookings. During this project, we have run a number of trade seminars to inform the Trade Associations and their members of progress in developing the new system.

  Our implementation plan has a first phase launch for VOSA users in late August 05 and a second phase launch through the Commercial Customer Portal towards the end of 2005 when users will be able to book, amend and cancel tests online.
- **Online payments** - in conjunction with the other online facilities, systems will be put in place to allow the customer to pay electronically.

Building on customer relationships

Customers' needs are continually changing and we need to ensure that we maintain a sound understanding of their perception of good service. We achieve this through a number of means, including a programme of regular workshops and surveys, through which we can monitor changing needs over time.

This year we carried out further workshops and surveys to ensure a continued understanding of the needs, perceptions and concerns of the Trade. Overall we enjoyed some very positive feedback although we failed to meet our Customer Satisfaction Secretary of State Key Target which comprised five individual measures, one of which we failed to achieve.

Some key headlines from the surveys:

Operators		
Overall satisfaction rating: • Operator Licensing	83%	up 5% on 2003
• Vehicle Testing	79%	up 6% on 2003
• Enforcement	75%	2004 only
• Speedy issue of new operator licences	72%	up 8% on 2003
• Test station opening hours that reflect business needs	59%	up 10% on 2003
• Lead time for test bookings	53%	up 14% on 2003
• The ANPR and VOSA Power to Stop enforcement initiatives are having or will have a positive effect		More than 3/4 of respondents agree
Drivers, Fitters and Presenters		
Overall satisfaction rating: • Vehicle testing	94%	up 2% on 2003
Roadside enforcement checks	91%	up 2% on 2003
Positive towards new enforcement initiative - VOSA Power to Stop	81%	
MOT Customers		
Overall satisfaction rating	81%*	from 88%

*It has been recognised that the results are not entirely comparable, as the overall satisfaction question as posed in the 2003 MOT Customers Survey followed a series of questions on a number of aspects of service within MOT, while in 2004 the question was included within the DVO Private Motorists Survey in isolation.

New Service Level Agreement

This year has seen the successful publication of a Service Level Agreement (SLA) with trade associations. This document sets out an understanding of expected levels of service and agreed commitments by both VOSA and the trade.

'The Service Level Agreement is allowing vehicle operators and VOSA to address some long standing issues and to raise standards in a constructive and open way.'

James Hookham, FTA Policy Director

As well as looking at possible changes to some of our testing services, in the SLA we also commit to carrying out a pilot for account managers, the aims of which are:

- to offer an improved service for our client
- to ensure our customers get value for money
- to invest in modernisation of operations
- to improve our communication channels and the services we deliver

The SLA was signed in December 2004, and Account Manager trials commenced shortly after in February 2005 in three regions, working with

DHL Express, Exel Logistics and Ryder. The Account Managers offer a single point of contact with VOSA for all testing, enforcement and licensing issues, encouraging ongoing two-way communications, thus benefiting both parties. The VOSA Regional Managers involved say that their understanding of modern transport operations has already been enhanced as a result of the closer contact they have had with customers.

The pilot will conclude during 2005, when decisions will be made on how to take this forward. Customers involved in the pilot, and the Trade Associations, are already providing very positive feedback about this initiative. A further workshop with clients will be held in early July.

In line with the SLA we have already delivered:

- A review of our Defect Rectification policy with our Health and Safety team. Appropriate use of the Pass after Rectification facility can reduce delay and downtime for the presenter of the vehicle while ensuring that vehicles meet safety requirements. New guidelines have since been published for both staff and customers to increase awareness of this facility and the framework in which it operates.

- Another area that has been identified for further development, building on work already undertaken by our Datacare team, is the periodic provision of test maintenance data to the industry. Volvo Truck Ltd, for example, are continuing to use this data to monitor and incentivise improvements in the test performance of their dealerships. Further organisations are benefiting from the initiative and in some cases have even advised us of terminating maintenance contracts with suppliers who were delivering poor pass rates.

Working closer with manufacturers

This year saw the first HGV Manufacturers' Forum where we not only have the opportunity to explain our work, but where we can also share the difficulties we sometimes encounter when testing new vehicles. The Forum has provided us with much more vehicle-specific information and has led to much closer collaboration on research issues. We were also invited to deliver a series of seminars in 2004 to MAN/ERF engineers on the latest VOSA issues.

Providing choice and user-friendly services

We have continued to deliver against service standards this year:

	% outturn
Answer correspondence within 15 working days of receipt*	100
Answer telephone calls within 5 rings*	100
See customers within 10 minutes of appointment times in our offices*	100
Pay 98% of invoices within 30 working days	99.16

* correspondence, calls and enquiries at general enquiry point

We have also improved our website and enquiry services:

In conjunction with DVO's strategy to deliver customer-focused services, the website was redesigned with sections for specific customers: Car and LGV owners; motorcycle owners; MOT testers and garage owners; HGV/PSV Operators; HGV/PSV drivers; and private HGV/PSV owners. The content is in plain English and is compatible with government standards for users who are visually impaired or have difficulties using a mouse. In line with DVO policy, once the Consumer and Commercial Portals have been launched, the site will become a corporate website.

The Enquiry Unit deals with calls from the commercial customer, the general public and from importers within and outside the EU. Calls may cover areas such as test bookings; test standards; type of test required; and the Working Time Directive. The Unit successfully took on the handling of general 'O' licensing calls for the Traffic Area Offices in November 2004. Calls to the Unit average 10,000 a month and this year totalled 424,740. Since February 2005 we have been trialling extended opening hours to further improve our service to the trade and public and have taken over 10,000 calls during the extended hours. Since March 2005 the Unit has been handling all credit and debit card payments for licensing transactions.

We have participated in the DVO Shared Virtual Contact Centre (SVCC) initiative and are positively looking at how we can play a full role in the development of the SVCC, aiming to make better use of more flexible resources across DVO and further improve customer service.

We provided answers to 118 Parliamentary Questions during the year and replied to 35 letters from MPs - 89% of the letters were replied to within the target time. VOSA headquarters dealt with 296 complaints, 93% of which received replies within 15 working days. A total of £4,611 was paid in compensation for complaints.

Improving effective partnership working

Police - we carried out further specialist enforcement operations with the Police this year. For example, we conducted checks on PSVs carrying members of the public on recreational journeys over a four week period. Almost 200 vehicles were prohibited, equating to 20% of the total checked.

Scottish Executive and Assembly for Wales (Traffic Departments) - we have begun dialogue with the traffic departments of the Scottish Executive and Assembly for Wales who are responsible for operating, maintaining and improving the strategic road network in Scotland and Wales respectively, in order to establish similar relationships with them as we have with the Highways Agency.

Highways Agency - we have a long-standing relationship with the Highways Agency, who are responsible for operating, maintaining and improving the strategic road network in England. We share a combination of weighbridge- and office accommodation sites. Highways Agency are providing a new site as part of a scheme on the A66 near Scotch Corner and we are in discussion over a replacement for the A74 Harker site in preparation for its future removal due to widening of the M6.

Government Agency Intelligence Network - we work closely with the other members of the multi-agency Government Agency Intelligence Network (GAIN). We have carried out a multi-agency operation with the Police to target fly tipping on the Metropolitan/Kent borders with significant offences discovered regarding operators' licences and vehicle safety, as well as fly tipping.

Police National Computer - in April we saw the installation of secure dial access to the Police National Computer via our Prosecution and Legal Services offices. This allows direct access to information on drivers and operators who have committed indictable offences and helps us to decide where it is in the public interest to prosecute. The system has already been successful in identifying defendants' relevant previous convictions and as a result, we expect more appropriate sentencing and better deterrent to other offenders. In August 2005 staff will be able to request information, through a secure and validated route. This will further enable Enforcement Officers to select the most appropriate enforcement sanction with regard to previous history.

Working with European partners

We have continued our collaborative work in Twinning projects, where one EU Member State provides assistance, in the form of consultancy and/or training, to a Candidate or Accession State, thus supporting EU enlargement.

Developments this year include:

- Completing a six month project in Slovakia to complete legal alignment with the EU and strengthen enforcement in road transport.

- Hosting a 5 day study visit for Lithuanian Transport Ministry officials on digital tachographs as well as 3 weeks of training for Maltese Enforcement Officers including theory and practical sessions on such subjects as emissions and roadside checks, and drivers hours and tachographs.

Euro-Contrôle-Route (ECR) - ECR comprises operational transport staff from different European Ministries of Transport and its mission is to work together to enhance the quality of enforcement in order to improve road safety and compliance with road transport legislation, and to promote fair competition.

During the year, ECR conducted roadchecks in various European countries on such items as overloading, live animal transport, fraud and falsifications, and buses and dangerous goods, with average prohibition rates ranging from 10.9% for buses to 51.6% for fraud and falsifications. ECR is moving from a quarterly to a monthly data exchange as part of a two year plan, and ensures that members have common training programmes.

This year we again hosted the annual UK European Harmonisation Exchange, where Traffic Examiners or their equivalents from France, the Netherlands, Belgium, Luxembourg and Ireland travelled to Edinburgh for a week of presentations and practical demonstrations of our work and working methods. Feedback via delegate presentations at the end of the event was very positive.

Comité International de l'Inspection Technique Automobile (CITA) - our work continued within the CITA community during 2004/05. VOSA now chairs a working group which looks at quality systems for European testing schemes. Our participation in the international testing arena has led to several collaborative ventures, the most notable being IDELSY (Initiative for Diagnosis of Electronic Systems - see page 25) and Autofore (see over).

Confederation of Organisations in Road Transport Enforcement (CORTE) - CORTE was set up in 2004 and comprises national bodies from various EU Member States with expertise in road transport, including national enforcement agencies, the Police, government transport departments and industrial partners. Its remit is to encourage effective dialogue leading to enhanced awareness of enforcement issues and the development of either legislative or technical solutions to improve road safety. Initial discussions on the VERONICA (Vehicle Event Recording based ON Intelligent Crash Assessment) project and APSNE (Advanced Passive Safety Network of Excellence), to overcome the fragmentation of the European research on vehicle safety, have taken place.

Autofore - we participate in both the Project Management and Project Steering Groups for this EU-funded project. The project aims to build on the requirements of the 'roadworthiness' directive 96/96/EEC and develop testing and enforcement strategies capable of tackling the increasing rate of vehicle and equipment technological development. The project commenced in February 2005 and is due to run for two years. It will report to a number of bodies including the European Commission.

REMOVE - we are also actively involved in the EC-funded project, Requirements for EnforceMent of Overloaded Vehicles in Europe (REMOVE). The project partners include the trade body IRU, TISPOL, ECR and other European government agencies. It aims to look into current practices, future strategies, sanctions, sharing of data and the use of Weigh In Motion systems across the EU. The project will make recommendations on new EU regulations and/or directives. REMOVE commenced in April 2004 and is due to run for up to two years. It will report to the European Commission.

Running a sound business

Business objective:

"To run an efficient, effective, continually developing and valued business, equipping our staff to make the best use of available technology, skills and knowledge".

Our work within this objective has covered:

- **Ensuring resources meet business needs**
- **Funding our plan and managing financial resources**
- **Delivering value for money**
- **Effective evaluation of performance**

Ensuring resources meet business needs

Improving our recruitment services and sickness absence management

We carried out a review of our recruitment policy, and staff now have access to a more transparent policy enabling a consistent approach throughout the business. Staff can now access job advertisements through our Intranet and we have increased external advertising on the Internet to attract more applicants. The Role Based Organisational Model (RBOM) enables more efficient management of staff resource. It serves as a tool for monitoring vacancies and is used as a tracking tool at an organisational and departmental level. Initial work on improving recruitment through re-engineering and e-enabling processes has now been subsumed within the central Shared Services Review, which is a project set up to review, standardise and streamline HR and Finance processes across DfT and its Agencies, in order to increase our efficiency as an organisation. Over the summer months, VOSA representatives from HR and Finance will be involved in the detailed process design. Changes will be introduced in phases, with the first phase planned for April 2006 and the last for April 2008.

We were successful in recruiting 4 New Deal scheme candidates on casual contracts for this financial year with one successfully gaining a permanent position. We have a government target to recruit 11 New Deal candidates and we are now working with the Job Centre to identify other ways to widen the recruitment pool.

We run an accredited four year Graduate Engineer Recruitment training scheme, leading to a chartered engineer qualification, which allows us to bring fresh ideas and up-to-date technical academic experience into the organisation. The cross-agency scheme has seen two graduates from the first intake gain chartered status and we have successfully placed them. We are now recruiting graduate engineers for the fourth year of recruitment in time for September 2005.

This year we have successfully recruited 23 Enforcement Support Officers for our Power to Stop activity. We have had to introduce a new method of recruitment for this scheme, including the need for security checks and for the applicants to have an advanced driver qualification.

VOSA led a project on recruitment and workforce planning (supply) as part of an overall DVO HR programme. The work on recruitment included looking at policies and practices across the agencies and carrying out a benchmarking exercise. The project team undertook an audit of DSA, DVLA, and VOSA's current supply forecasting processes and assessed a business case for cross-DVO workforce planning (supply). Findings from all this work are now informing the Shared Services Review.

Valuing a diverse workforce - we carried out a Disability Discrimination Act (DDA) workforce survey in October 2004. Requirements for reasonable adjustments were identified and we have invested in items such as digital hearing aid loops, orthopaedic chairs, adapted desk top equipment and IT hardware.

Work to increase the number of applications from minority groups, wherever possible, continues to prove a difficult area, as with many nationally-based organisations. The 2001 Census shows that the UK population has approximately 7% of people from black and ethnic minority groups and that the predominance of people from black and ethnic groups is concentrated in areas around the country, such as London, Liverpool and the East Midlands. Efforts are being made in these and other areas to attract people from diverse backgrounds.

Underpinning this work, we carried out an Ethnicity survey, and Managers' Diversity training took place throughout the year. The results of the survey are encouraging, we had over 60% survey forms returned which is an increase of over 5% from the previous survey carried out in 2003. If we add this to other information that we hold, we now know the ethnicity of over 78% of our staff which, given that this information is provided on a voluntary basis, is an excellent figure. As a result of the survey and our other information-gathering exercises, we now have a valid data set that we can use to inform our future planning activities. Our latest figures on employees from black and ethnic minority groups show an increase of over 1% from 2003 to 3.5% of total employees. This is a solid, sustainable increase and reflects our workforce make up in relation to the distribution of populations around the UK. There is work still to be done but we continue to make good progress.

Sickness absence management - we have continued to take a proactive approach to the management of sickness absence and this has resulted in an 8% reduction in sickness absence across VOSA. Included among the measures to reduce sickness absence were: early occupational intervention and health awareness; training for managers in sickness absence procedures; and home visits to absent employees by Human Resources. We have agreed a target and strategy that is intended to reduce sickness absence to an average of 8 days per employee for the 2005/06 reporting year.

Investing in our People

We see our people as being our key asset and fundamental to our success as an organisation that consistently delivers against our key targets. It is essential that we have the right people with the right skills in the right place at the right time and we remain committed to being an Investor in People (IiP). We have made good progress since our initial accreditation in 1999 and we have used the IiP Standard as an effective tool for planning, developing and then evaluating the effectiveness of our staff training programmes. We have an excellent record of developing staff at all levels in the business and we intend to continue to build on our success. We are in the final year of our current accreditation and the assessment process will be completed during the Autumn of 2005. If all of the elements of the IiP Standard are met we will be re-accredited in January 2006.

Training and development is key to IiP and we have reviewed elements of our training as follows:

- We carried out a comprehensive review of training and development in VOSA to ensure that any future arrangements fully support the development of staff and continue to meet the needs of the business and customers. Recommendations from the review will be considered for action in the coming year.

- Following the review of our local induction programmes, we launched a revised programme in August 2004. The trainers will deliver local induction in addition to our national course, and will receive training in mentoring new recruits from early next year. Work has also been progressed on introducing a management coaching programme for licensing and compliance managers.

During our second year as a new agency, we have produced a new Staff Handbook and harmonised staff terms and conditions of service.

A safe and healthy working environment

In order to encourage sound local Health and Safety awareness, we trained 11 VOSA staff to the equivalent of the National Examination Board in Occupational Safety and Health (NEBOSH) General Certificate in Health and Safety. Through follow up training, coaching and mentoring, the H&S Team will ensure continuing competence of this group, to support managers in carrying out risk assessments and advising on safe systems of work.

A training course for managers to deal with employee stress at work was successfully piloted in February and will roll out in the coming year. This course underpins our Stress at Work Policy, and HSE's published Management Standards for dealing with workplace stress.

Throughout the year, we reviewed and revalidated a wide range of model risk assessments, covering existing and new processes, encompassing both testing and enforcement activities, and equipment such as Directed Surveillance and OMITEC Smoke Meter.

It is likely that from February 2006, lower statutory limits for noise exposure at work will be introduced. Members of our Health and Safety team were trained as noise assessors and have since carried out extensive fieldwork on a complete noise exposure re-measurement project, to strive towards implementing changes where appropriate, and to reduce employee exposure to excessive noise.

Modernising our estate and equipment

In order to provide continued high standards of testing and enforcement, and health and safety for staff and customers, we have made good progress on phase 1 of our programme of estates modernisation and improvements.

We have carried out significant refurbishment work at three sites during the year. Rebuilds took place at Aberdeen (completed by March 2005) and Gillingham (due for completion in May 2005). Work on the Aberdeen site was actually completed almost a month ahead of schedule while the work at Gillingham over-ran by around six weeks, particularly due to adverse weather conditions and issues with recruiting local construction workers. We also carried out a pit installation at Kilmarnock. We achieved our Secretary of State Key Target by completing 53.5% of phase one of our modernisation programme against the target of 30%.

During the period of rebuilds, we ensured that alternative arrangements were made for tests to be carried out through a temporary site for Aberdeen, and by diverting tests to surrounding stations and Designated Premises for Gillingham, to minimise any disruption to customers.

We agreed at the start of this year to install some fixed roller brake testers (RBT) at sites along routes with high throughput, to make the best use of our resources and increase our operational effectiveness. Two of the three proposed fixed roller brake tester installations have been completed, with the third site currently under construction. The final version of the enforcement software has been demonstrated to the end users and will be ready to install in the next few weeks. All three RBTs should be operational by end of May 2005.

Funding our plan and managing financial resources

The main challenges in connection with financial resource management for this year were major project investments, pressures of current efficiency reviews and uncertainty over investment funding.

We have been successful in managing all of these issues: we have invested heavily in major projects having obtained both loans and Departmental funding; we have over-achieved the efficiency savings identified in our Value for Money Plan; and we have secured a baseline of funding from DfT covering the next three years.

Funding

As a Trading Fund, most (85%) of our income came from fees and charges for our activities.

Additional funding

We were successful in obtaining funding for all new initiatives that were required during the year:

- we were given funding from DfT for all agreed enforcement activity in year, and have an agreed ongoing baseline.
- we have progressed our estates modernisation programme and have secured future loan funding to continue this significant investment in our ageing estate, and equipment; and
- we have been provided with a loan of £6m toward the delivery of full e-enablement activity and ICT for merger initiatives, and have secured a further loan of £5.7 million to be provided next financial year to continue this investment.

As a result, we were able to manage the potential gap in funding that we identified in our Business Plan.

Actual income: £144.3 million

Income is earned predominantly from operator licence and vehicle fees; statutory testing fees; and the sale of MOT certificates. The breakdown of income is shown in the Foreword to the Accounts on page 44 of this report. With the exception of MOT, we increased fees in August 2004.

These increases have contributed towards continuing to bring the accounts into balance, and the further modernisation and refurbishment of our estates and equipment.

We have completed the realignment of HGV fees to more accurately reflect the time taken for each axle test (a four-axle vehicle takes almost twice the time of one with two axles). We also extended this realignment to HGV and PSV retest fees.

Fee increases were introduced in consultation with the Trade and followed on from themes and levels of increases discussed with them in presentations.

Managing financial resources

Trading account management

As a Trading Fund, the Agency's objective is to break even year on year on each scheme.

Specifically, the costs incurred in undertaking all aspects of work involved with a particular scheme should be covered by the scheme's fee or payment. For example, the full cost incurred in the testing of PSVs should be matched by the total amount of income received from the fees charged for carrying out those tests.

Return on Capital

Another Treasury target the Trading Fund must meet is 'Return on Capital' which measures the return on average assets. We have achieved a 13.8% Return in the year. This position will reduce in coming years as major projects are implemented and the associated costs are incurred, resulting in the average return falling to a position closer to the target level. Our cumulative performance over the period 1 April 2003 to 31 March 2005 is 13.8% against the target to earn a 3.5% Return on Capital.

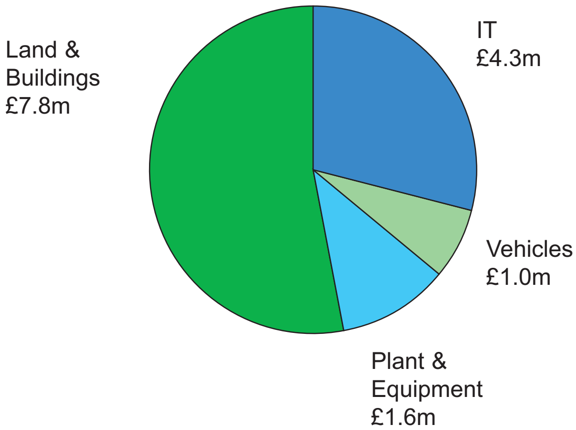
Actual expenditure : £136.3 million

A breakdown of the major areas of expenditure is shown in the Foreword to the Accounts on page 44 of this report.

Capital expenditure: £14.7 million

This year's spend included: continued investment in the estate; a continued programme of replacing equipment at both testing stations and the roadside; and further enhancements to IT systems.

Capital Expenditure



Cash

Our total cash position increased by £3.3m to £108.5m. This position arose due to the higher than planned income and lower than planned expenditure, mainly due to the later than planned commencement of roll-out of MOT Computerisation and the delay with associated payments to our MOT service supplier.

Income and expenditure

The income and expenditure account is shown in the Accounts on page 56 of this report. The surplus for the year was £12.3m before interest payable and exceptional items. This is set against our Business Plan deficit of £1.7m before interest payments. The "improvement" in the surplus arose primarily due to the delays in the start of roll-out of MOT Computerisation.

Delivering value for money

Our value for money (VFM) plan supports the wider DVO Group plan and addresses the requirements of the Gershon Review. It is driven by a range of measures resulting in cost savings, productivity improvement and effectiveness improvement.

During the year we have:

- increased revenue by £6.0m above the VFM baseline compared with the targeted improvement of £1.7m
- exceeded our cost savings target by producing £3.5m of savings compared to our target of £1.3m, these savings made across a range of activities
- increased effectiveness of the organisation by delivering 1.3m additional Performance Gain (PG) points compared to our planned increase of 0.4m
- reduced our underlying headcount figure by 36 FTEs compared to our planned figure of 33.5 FTEs - we employed 2,770 FTEs as at 31 March 2005

In summary, we have delivered our Secretary of State Key Target through delivering 6.5% efficiency and 15.4% effectiveness against our plan of 2.5% efficiency and 2.5% effectiveness.

Effective evaluation of performance

Improving the way we manage and measure our performance

Performance management tools - work has been undertaken with our IT partner Atos Origin to develop an online performance reporting tool, building on the success of the current monthly reporting system, introducing a more traditional scorecard view of the business. User Acceptance Testing (UAT) of the functionality of the system has been completed. It is planned to be deployed in 2005/06 as management scorecard measures are defined and developed more widely across the business.

Performance Measures - there is a large number of measures of performance in the business. While some work has been undertaken to define and develop performance measures for the Agency and for each of the Directorates, this will need to be reviewed and extended to take account of a Strategic Review currently being undertaken by the Board.

Improving data quality - in response to recommendations from previous data projects, the Data Improvement Plan has been put in place to address the issues of improving the integrity of data across VOSA. An operation was successfully completed, just after the end of the financial year, to assimilate refresh data from our Licensing Business System into our Roadside and Data Warehouse systems in order to improve data quality and operational effectiveness. Other parts of the Plan include ensuring that all address data conforms to the Royal Mail Postcode Address File standard; auditing the data in the Licensing Business System; and ensuring policies and processes are embraced to support data quality in the future.

Auditing our processes

In line with plans contained in the 2004/05 audit programme, our Internal Audit Unit completed audits of 20% of our Testing Stations, Enforcement Offices and Traffic Area Offices. Composite reports summarising the main issues arising from these audits were subsequently issued to the National Audit Office. Twenty high level systems audits (a 33% increase over the original plan) were also completed. As a result of the Unit's work, the head of Internal Audit was able to provide a substantial assurance to the Chief Executive as Agency Accounting Officer and the Department for Transport, that risk management, governance arrangements and control systems generally were found to be well established and working effectively. Nonetheless, some opportunities to improve working practices had been identified and corrective action had been or was being taken by management.

Embedding risk management across the business

Our risk management process continued to be embedded throughout the year and the Audit and Risk Management Committee reviewed progress twice during the year. Further information on our corporate governance and risk management arrangements can be found in the Chief Executive's Statement on Internal Control at page 51.

2005/06 Forward view

The main body of this Annual Report includes details of activity that will progress into next year and beyond, where appropriate. A full outline of our planned activity and future strategy can be found in the 2005/06 VOSA Business Plan, which was published in April 2005.

In 2005/06 the primary measurement for our performance will be through 9 Secretary of State Key Targets. These targets will give us a clear remit for our priorities over the coming year. Our aim, business objectives and Key Targets for 2005/06 are outlined below.

2005/06 Aim

To contribute to the improvement of road safety and environmental standards and to the reduction of vehicle-related crime.

2005/06 Business Objectives

- To raise the compliance of the road haulage and passenger transport industries with licensing, roadworthiness, road traffic and environmental standards
- To improve the roadworthiness and environmental standards of private motor vehicles, and to contribute to the reduction of vehicle-related crime
- To work with DVO group members and other partners to provide customers with a choice of modern, accessible and user-friendly services
- To run an efficient, effective, continually developing and valued business, equipping our staff to make the best use of available technology, skills and knowledge

2005/06 Key Targets

Better customer services

1. To improve the availability of tests to meet customer needs better
2. To improve licence application processes, enabling quicker decisions for customers
3. To deliver a programme of improved e-service across the commercial and business sectors so that, by 2008, 80% of services will be available electronically
4. To maintain or improve customer satisfaction against 2004 levels

Better compliance

5. To improve enforcement effectiveness through increased targeting of offenders, making full use of Power to Stop, Automatic Number Plate Recognition (ANPR) and improved intelligence data
6. To complete the roll out of a robust MOT Computerisation system nationally and implement the benefits realisation plan
7. To complete the merger of the intelligence and compliance units to ensure the independence of Traffic Commissioners and improve the quality of investigated cases presented

Better value for money

8. To deliver 5% value for money savings covering at least 2.5% of baseline cost reduction measures and 2.5% of effectiveness improvements
9. To improve the suitability of the VOSA test station estate, in terms of location and condition, to reflect changing customer requirements

Financial Statement for the year ended 31 March 2005

Accounts of the Vehicle and Operator Services Agency for the year ended 31 March 2005, together with the Report of the Comptroller and Auditor General thereon, are prepared pursuant to Section 4(6)(a) of the Government Trading Funds Act 1973.

Ordered by the House of Commons to be printed 20 July 2005

Foreword

The Vehicle and Operator Services Agency (VOSA) is a Trading Fund within the Department for Transport (DfT), formed on 1 April 2003 by the merger of the Vehicle Inspectorate Trading Fund (VI) and the Traffic Area Network (TAN), a division of DfT.

VOSA's responsibilities, which are undertaken in conjunction with other authorities, are concerned with enforcing the law on vehicle safety and environmental protection legislation. This is carried out through the administration of operator licensing; the statutory testing of Heavy Goods Vehicles, Public Service Vehicles, Light Goods Vehicles and those vehicles encompassed by the Single Vehicle Approval and Vehicle Identity Check schemes; specialised inspections for vehicles transporting dangerous goods, perishable foodstuffs and goods sealed for Customs purposes; enforcement activities to check vehicle roadworthiness and compliance of drivers and operators with road traffic regulations such as drivers' hours and load weights; and the supervision of the MOT testing scheme. VOSA also provide the independent Traffic Commissioners with administrative support in regulating the commercial vehicle transport industry, including the registration of bus services, the licensing of vehicles and operators, and Public Inquiries.

VI was founded in 1964 as a division of the Ministry of Transport and was established as the first Executive Agency under the Government's Next Steps initiative on 1 August 1988. It attained Trading Fund status under the provisions of the Government Trading Funds Act 1973, with effect from 1 April 1991. On 1 April 1992 the traffic enforcement functions previously undertaken by the Department of Transport were incorporated into VI's responsibilities.

TAN was created under the Road Traffic Act 1930 with responsibility for issuing licences for Public Service Vehicles. These responsibilities were extended under the Road and Rail Traffic Act 1933 to cover the licensing of goods vehicles and operators. Specific responsibilities have changed throughout the intervening years, most notable being the transfer of responsibilities for Driving Tests to the Driving Standards Agency in 1990; the transfer of issuing vocational licences to the Driver and Vehicle Licensing Agency in 1991; and the transfer of Traffic Enforcement functions to VI in 1992.

The following accounts have been prepared in accordance with the direction given by the Treasury in pursuance of Section 4(6)(a) of the Government Trading Funds Act 1973, and the Dear Accounting Officer Guidance note [DAO (GEN) 02/05].

Business objectives

The business objectives of VOSA are set out on pages 8, 20, 26, and 34 of the Annual Report.

Financial objectives

The Government Trading Funds Act 1973, lays upon the Minister responsible for each fund the financial objective of:

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 revenue account; and

ii. achieving 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.

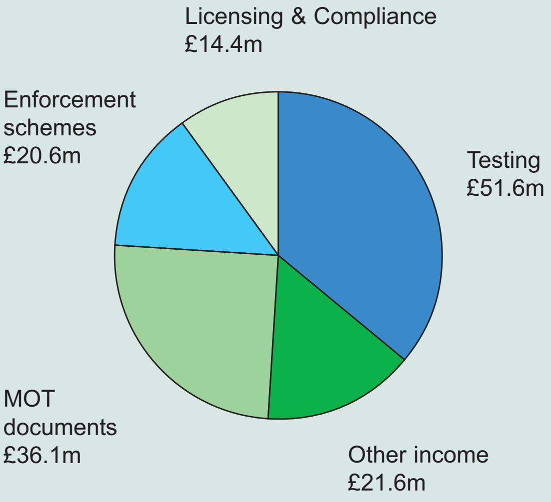
The financial objective of VOSA is to earn an average return of 3.5% per annum in the form of an operating surplus expressed as a percentage of average net assets employed at current values. VOSA has the additional financial objective of contributing to the Driver Vehicle and Operator (DVO) Group 5% 'Value for Money' target by delivering against an agreed VOSA 'Value for Money' plan, achieving 2.5% efficiency and 2.5% effectiveness measures.

Financial results for the year

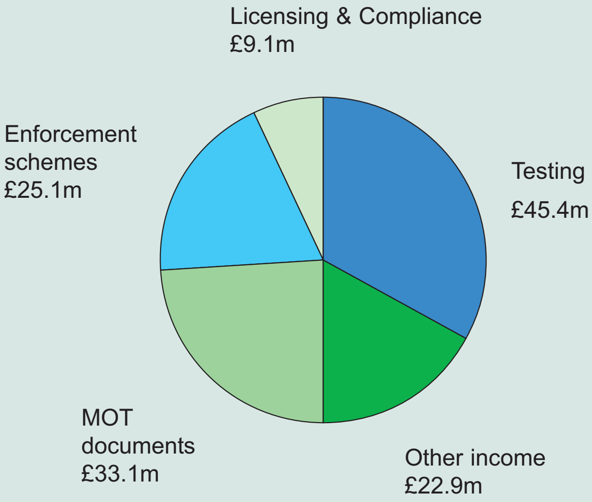
The Income and Expenditure Account for the year is set out on page 56 of the Annual Report.

Current and previous years' income

Income from operations 2004/05



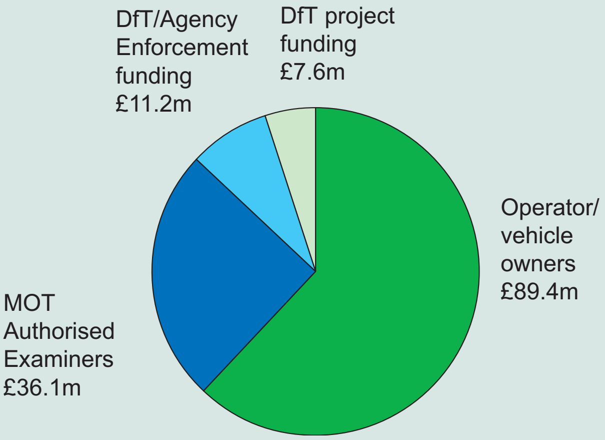
Income from operations 2003/04



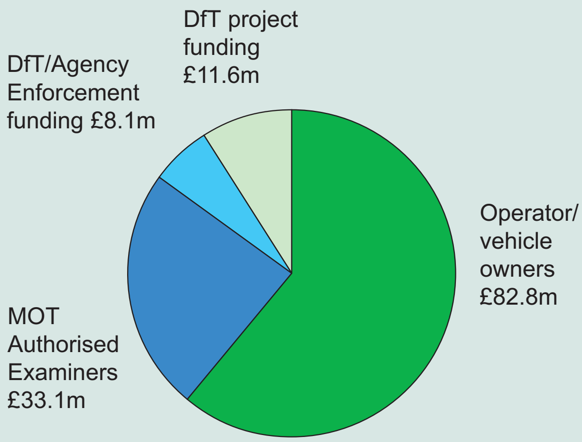
The income for the year was £144.3m (2003-2004 £135.6m), an increase of £8.7m (6.4%) on the previous year. Income from activities increased by £10.0m, of which £1.9m is statutory income due to volume growth and the remainder is due to fee increases. Other operating income decreased by £1.3m mainly due to a reduction in the release of project funding received from the Department for Transport and Central Government budgets such as Invest to Save and Modernising Government.

Sources of income

Sources of income 2004/05



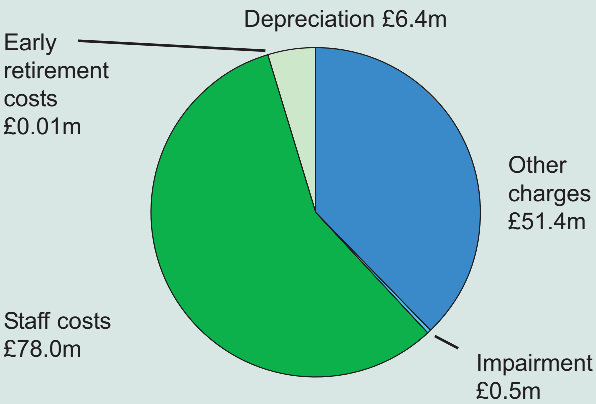
Sources of income 2003/04



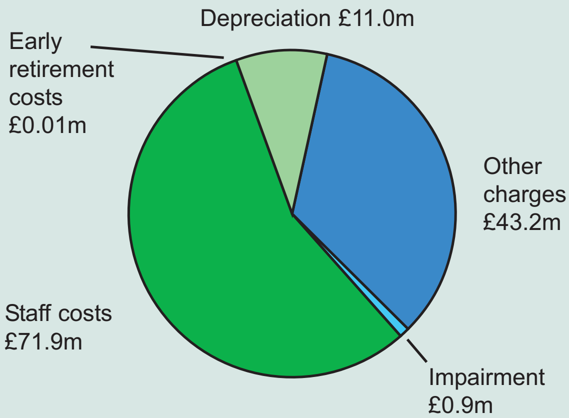
VOSA's income is obtained from three main sources:

- from operators, vehicle owners and presenters in the form of annual and specialist test fees, 'O' licence fees and vehicle fees;
- from MOT Authorised Examiners in the form of MOT certificate fees; and
- from the DfT and other Agencies in the form of direct funding of enforcement work. The DfT also provides funding for specific major investment projects

Operating costs 2004/05



Operating costs 2003/04



Current and previous years' expenditure

Total operating costs increased by 7.3% to £136.3m (2003-04 £127.0m). Salaries increased by £6.5m, the majority of which resulted from the annual pay award and the slight increase in staff numbers. Depreciation charges decreased by £4.6m as a result of the re-lifing of freehold buildings, further details of which are disclosed in Note 7 to the financial statements. Impairments in the value of fixed assets decreased by £0.4m. Other operating charges increased by £7.8m mainly due to an increase in IT spends arising from new projects undertaken with ATOS Origin, our main IT provider, and payments to Siemens Business Services for work related to the MOT Computerisation project. Spend also increased on rates and rent charges, legal fees and major testing equipment maintenance contracts.

Turnover and surplus

The outturn on total turnover and net surplus on ordinary activities are:

	2004-05 £'000	2003-04 £'000
Turnover	144,289	135,642
Net surplus on ordinary activities	12,280	9,449

The net surplus is stated after undertaking a full review of the provision for early retirement costs and impairment on fixed assets. The 2003-04 surplus is stated after excluding additional enforcement funding of £1.5m received in that year which related to periods prior to 31 March 2003.

Return on capital (ROC)

VOSA is charged with earning a 3.5% return on capital. The resultant surplus after allowing for this requirement is:

	2004-05 £'000	2003-04 £'000
Net surplus excluding impairment	12,743	10,328
ROC requirement	(3,236)	(2,367)
Surplus after ROC	9,507	7,961

The net surplus of £12,743,000 on ordinary activities (excluding impairments on fixed assets, interest payable, dividend and exceptional items) represents a return on average net assets of 13.8% (13.7% in 2003-2004). This position will reduce in coming years as major projects are implemented and the associated costs are incurred, resulting in the average return falling to a position closer to the target level.

The average return on net assets over the period 1 April 2003 to 31 March 2005 was 13.8%. This compares with the target, as stated in Annex A on page 79 of the Annual Report, of an average return over the period 1 April 2003 to 31 March 2008 of at least 3.5%.

Retained surplus

After deducting actual interest paid and providing for a distributable dividend, when applicable, but excluding exceptional items, the retained surplus is:

	2004-05 £'000	2003-04 £'000
Net surplus	12,280	10,947
Interest paid	(2,809)	(2,491)
Dividend payable	0	0
Retained surplus for the year	9,471	8,456

Value for money measures

The Value for Money target set for VOSA this year was 'to contribute to the DVO Group "Value for Money" target by delivering against an agreed VOSA Value for Money plan, achieving 2.5% efficiency and 2.5% effectiveness measures'. Performance was exceeded against both measures this year. Against the efficiency measure actual outturn was 6.5%. Against the effectiveness measure the actual outturn was 15.4%.

Market value of land and buildings

Freehold and leasehold land and buildings are re-valued over a five year period with approximately one fifth of the estate being valued each year by an independent valuer. The Directors consider that there is no significant difference between the book value and the market value on an existing use basis of the land and buildings.

Movements in tangible fixed assets are set out in note 7 of the accounts and on page 70 of the Annual Report.

Future developments

The future developments of VOSA are discussed in 'Forward View' on page 42 of the Annual Report.

Directing Board

The composition of the Board as at 31 March 2005 is set out on page 6 of the Annual Report.

Policy and practice on the payment of creditors

VOSA's policy, in line with that of DfT, is to pay 98% of all undisputed bills in accordance with contractual conditions or, where no such conditions exist, within 30 days of the receipt of goods or services or the presentation of a valid invoice, whichever is the latter.
Throughout the year 99% of undisputed invoices were settled within this policy. VOSA is also a supporter of the Confederation of British Industry's Prompt Payers Code of Good Practice.

Employment of registered disabled

Full and fair consideration is given to applications for employment by disabled persons, having regard to their particular aptitudes and abilities. Wherever possible, arrangements are made for the continuing employment of persons who have become disabled during service and for the appropriate training, career development and promotion of disabled employees.

Staff involvement

During 2004-05 VOSA employed, on average, 2,710 (full-time equivalent) people throughout the country. VOSA is an equal opportunity employer. Consequently, all staff, irrespective of their status, origin, sexual orientation, religion or beliefs, will be treated equally and judged solely on the basis of their ability, qualifications and fitness for the work.

Staff involvement is actively encouraged within VOSA as part of the day-to-day process of line management supplemented with the wide dissemination of information through computerised networks and other means, including an in-house magazine entitled *Staff News*. Formal and informal negotiations and consultations are conducted with trade unions, at both local and national Whitley Councils.

Training and Health and Safety

One of management's main priorities is to invest positively in scheme training and individual personal development. VI was initially accredited as an Investor in People organisation in December 1999 and re-accredited in January 2003. Following the merger between TAN and VI, that created VOSA in April 2003, the new organisation continued to be recognised as an Investor in People under IiP's Merger and Acquisitions guidelines. VOSA will be assessed over the coming two years and if the Agency continues to meet the Standard VOSA will again be accredited in December 2005. A full programme of training courses is run both at the Bristol Training Centre and at local venues. The health, safety and welfare at work of all employees continue to be a priority, and safety policies and procedures remain under continuous review to achieve further improvements.

Post balance sheet events

There have been no events since the end of the financial year which would affect the understanding of these financial statements

Auditors

The accounts of VOSA are audited by the Comptroller and Auditor General in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

Audit fees charged in the accounts amount to £53,000 (2003-04: £73,000). There was a small element of non-audit work undertaken during the year by the National Audit Office which, due to the low value of the fees charged, is not considered to give rise to any audit independence issues.

Stephen Tetlow

S Tetlow
Chief Executive and Accounting Officer
1 July 2005

Statement of Vehicle and Operator Services Agency's and Chief Executive's responsibilities

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed VOSA to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction as set out in Dear Accounting Officer Guidance note [DAO (GEN) 02/05]. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts VOSA is required 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 have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that VOSA will continue in operation.

The maintenance and integrity of the Agency website is the responsibility of the Accounting Officer. The work carried out by the Auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The Treasury has appointed the Chief Executive of VOSA as the Accounting Officer for VOSA. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in *Government Accounting* (The Stationery Office Limited).

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of VOSA's policies, aims and objectives set by Ministers, whilst safeguarding the public funds and assets for which I am personally responsible. This accords with the responsibilities assigned to me in *Government Accounting*.

VOSA, as a Trading Fund, must break-even year on year for each of the schemes it operates. This means that the costs incurred in providing individual services, e.g. the testing of Heavy Goods Vehicles, should be matched by the income received through fees. In addition, the Agency must meet a 'return on capital' target, which is set by HM Treasury and is designed to measure the return on average resources consumed.

I seek the agreement of the Secretary of State for the policy framework in which the Agency operates, its strategic objectives and annual performance targets, as approved by the Agency's Advisory Board. This is done by obtaining the Secretary of State's approval to (i) the Framework Document (and any revisions to it) and (ii) the corporate and business plans, including annual key targets and fee levels. I submit periodic performance reports to the Advisory Board and the Secretary of State, culminating in the Agency's Annual Report and Accounts.

VOSA's Corporate Governance arrangements benefit from active interaction with a number of individuals and bodies with knowledge and expertise to aid me in properly discharging my role as Agency Accounting Officer. Augmenting the VOSA Directing and Change Boards' assistance to me is the advice and guidance I get from the Advisory Board on strategic direction and business issues. The DVO Board, Agencies and DfT partners also give advice and support on arising issues and risks as well as offering routes to escalate risk. Working with the DfT Head of Internal Audit we now have integrated audit strategies and work plans to deliver robust interactive group assurance for Agencies.

Finally, I receive sterling support on financial and risk items from the members and *attendees* of VOSA's Audit and Risk Management Committee namely:

Elizabeth Bertoya: Non-executive Chair
Geraldine Terry: Non-executive Finance representative
Bill Buckley: Licensing Director
Alastair Peoples: Operations Director

Paul Keane: National Audit Office external audit Director, supported by
Tim Smith: PKF Partner and external audit contractor to NAO
Armajit Atkar: Head of DfT Internal Audit
Jeff Belt: Finance Director
Tim Creedon: Head of VOSA Internal Audit.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control which is in place in the Agency accords with HM Treasury guidance.

Capacity to handle risk

Risk management has been built into the corporate planning systems and has also been incorporated into the Agency's Total Quality processes to complement the work already undertaken by Corrective Action and Continuous Improvement teams. The Agency fully recognises the 5 principles for public risk management as follows:

- Openness and Transparency - The Agency publishes its risk management policy and procedures.

- Involvement - The Agency has sought to establish a comprehensive set of risk registers. All levels of staff are encouraged to report risks and opportunities to the groups who maintain the registers.

- Proportionality - The Agency has incorporated risk management into its planning and delivery reporting systems to ensure risks are managed in a consistent and measured way and that adequate internal control arrangements are in place.

- Evidence - The Agency's process is designed to ensure all relevant risk factors are considered and quantified. This provides a shared understanding of each risk and the options for dealing with and managing them.

- Responsibility - The Agency has appointed risk stewards to oversee the arrangements for managing those risks contained on the corporate risk register and risk co-ordinators to manage the risks contained in Group registers.

The risk and control environment

The Directing Board has established and embedded a risk management system, which was reviewed twice during the year by the Audit and Risk Management Committee. Individual executive directors are designated risk stewards for each of the key risks contained in the corporate risk register. The stewards monitor and/or develop controls or risk treatment plans through specific groups who are responsible for the areas identified as high risk (impact and/or probability) by reviewing regular reports from designated managers through the Monthly Performance Report and Papers to the Directing Board. The report uses the RAG system (red/amber/green) to indicate whether controls are considered effective, less than effective or ineffective. A second tier of risk registers is maintained by product groups, project teams and operational or policy branches. Work to ensure that all projects, products and steering groups within this tier have robust risk management processes continues, so that all parts of the Agency can effectively identify new or emerging risks and, where possible, agree and put in place risk treatment plans. Where it is judged that potential risks may have a corporate impact, these risks are reported to the Directing Board through the Monthly Performance Report using the RAG assessment.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of this is informed by the work of the internal auditors, the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I am advised on the effectiveness of the system of internal control by the Audit and Risk Management Committee.

The Directing Board's main purpose may be described as shaping the future of the Agency and managing both the delivery of its annual Business Plan and its corporate risks. To achieve this purpose it meets as a collective Board through a series of corporate meetings:

- to provide the vision and values for the Agency, and agreeing the strategies and initiatives for developing and improving the business to ensure stakeholder outcomes are met.
- to give consideration to the Agency's priorities and the allocation of appropriate resources to ensure balanced delivery of the Agency's Business Plan commitments.

The Agency sustains its own Internal Audit Unit. The Unit's functions are established by me as Accounting Officer in association with the Audit and Risk Management Committee. The Unit operates as an independent and objective appraisal and advice service. Its primary function is to provide an opinion on risk management, internal control and governance arrangements by measuring and evaluating their effectiveness in achieving the Agency's agreed objectives. In his Annual Audit Report, the Head of Internal Audit was able to offer me his professional opinion that the systems of governance and internal control were generally robust and the Agency continued to operate effectively with no major weaknesses which might put the organisation at risk.

S Tetlow

Chief Executive and Agency Accounting Officer

1 July 2005

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

I certify that I have audited the financial statements on pages 56 to 78 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 60 to 62.

Respective responsibilities of VOSA, the Chief Executive and Auditor

As described on page 50, the Vehicle and Operator Services Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. VOSA and the Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 51 to 53 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of VOSA's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by VOSA and its Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of VOSA at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by Treasury; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

14 July 2005

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

Income and expenditure account for the year ended 31 March 2005

	Notes	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Income from operations					
Income from activities	2	**122,716**		112,713	
Other operating income	2	**21,573**		22,929	
Total income from operations			**144,289**		135,642
Expenditure					
Staff costs	4/5	**(78,018)**		(71,839)	
Early retirement scheme costs	14	**(43)**		0	
Depreciation	7	**(6,387)**		(11,026)	
Impairment	7	**(463)**		(881)	
Other operating charges	3	**(51,387)**		(43,229)	
			(136,298)		(126,975)
Operating surplus			**7,991**		8,667
Interest receivable and similar income			**4,289**		2,280
Net surplus on ordinary activities			**12,280**		10,947
(Loss)/Surplus on disposal of Fixed Assets	7		**(22)**		7
Interest payable	6a		**(2,809)**		(2,491)
Dividend payable	6b		**0**		0
Retained surplus for the year			**9,449**		8,463
Retained surplus brought forward			**20,096**		11,633
Retained surplus carried forward			**29,545**		20,096

The income and operating surplus shown above are derived entirely from continuing activities.

The notes on pages 60 to 78 form part of these accounts.

Balance sheet as at 31 March 2005

	Notes	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Fixed assets					
Tangible assets	7		**81,500**		70,229
Current assets					
Debtors	8	**7,629**		1,665	
Cash in hand and at bank	13	**108,494**		105,239	
		116,123		106,904	
Current liabilities					
Creditors falling due within one year	9a	**(51,246)**		(48,530)	
Net current assets			**64,877**		58,374
Creditors falling due after one year	9b		**(45,514)**		(44,184)
Provision for liabilities and charges	14		**(176)**		(326)
Total assets less liabilities			**100,687**		84,093
Financed by:					
Capital reserves					
Public Dividend Capital	15	**28,983**		28,983	
Loans from the Secretary of State	17	**35,695**		32,011	
Revaluation Reserve		**6,464**		3,003	
Income and Expenditure account		**29,545**		20,096	
			100,687		84,093

S Tetlow
Chief Executive and Accounting Officer
1 July 2005

The notes on pages 60 to 78 form part of these accounts.

Cash flow statement for the year ended 31 March 2005

	Notes	2005 £'000	2004 £'000
Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus		**7,991**	8,667
Depreciation		**6,387**	11,026
Impairment	7	**463**	881
Net movement in early retirement provision	14	**(150)**	(258)
(Increase) / Decrease in debtors before interest	8	**(5,881)**	55,211
Increase in creditors	9a/b	**5,265**	11,977
Net cash inflow from operating activities		**14,075**	87,504
Cash flow statement			
Net cash inflow from operating activities		**14,075**	87,504
Returns on investments and servicing of finance	12a	**1,397**	(476)
Capital expenditure	12b	**(14,875)**	(10,832)
Dividend paid		**0**	0
Net cash inflow before financing		**597**	76,196
Financing	12c	**2,658**	7,429
Increase in cash	13	**3,255**	83,625

Reconciliation of net cashflow to movement in net funds (note 13)

		2005 £'000	2004 £'000
Increase in cash in the period		**3,255**	83,625
Repayment of loan from Secretary of State		**3,186**	2,431
Capital element of finance leases		**156**	140
New loan from Secretary of State issued in year		**(6,000)**	(10,000)
Change in net funds		**597**	76,196
New finance leases		**0**	(25)
Net funds at 1 April		**84,211**	8,040
Net funds at 31 March		**84,808**	84,211

The notes on pages 60 to 78 form part of these accounts.

Statement of total recognised gains and losses

	2005 £'000	2004 £'000
Surplus for the financial year	**9,449**	8,463
Unrealised surplus on revaluation of assets	**3,461**	2,168
Total recognised gains relating to the year	**12,910**	10,631

Reconciliation of movements in capital and reserves (Government Funds)

	Public Dividend Capital £'000	Vesting Loan £'000	Revaluation Reserve £'000	Income and Expenditure Account £'000	Total £'000
Government Funds at 1 April 2004	28,983	32,011	3,003	20,096	**84,093**
Surplus for the year	0	0	0	9,449	**9,449**
Surplus on asset revaluation	0	0	3,461	0	**3,461**
New loan vested in year	0	6,000	0	0	**6,000**
Loan repaid in year	0	(263)	0	0	**(263)**
Transfer to Short Term Creditors	0	(2,053)	0	0	**(2,053)**
Total surpluses and deficits recognised since last annual report	0	3,684	3,461	9,449	**16,594**
Government Funds at 31 March 2005	**28,983**	**35,695**	**6,464**	**29,545**	**100,687**

The notes on pages 60 to 78 form part of these accounts.

Notes to the accounts

1. Accounting policies

a. Historical cost convention

The accounts are prepared under the historical cost convention, modified to include the revaluation of tangible fixed assets, in a form directed by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973. They comply with the accounting and disclosure requirements of the Companies Act 1985 as amended, and the accounting standards issued or adopted by the Accounting Standards Board, in so far as those requirements are appropriate.

b. Fixed assets

Land and buildings were brought into the Agency at valuation. These are revalued over a five year period with approximately one fifth of the estate being valued by an independent valuer each year on a market value for existing use basis. All other assets are revalued annually using indices published by the Office for National Statistics.

The valuations are described in note 7. Surpluses and temporary diminutions on revaluation are taken to the revaluation reserve; permanent diminutions in the value of fixed assets are initially charged against previous revaluation surpluses on such assets with any further diminution in value being charged directly to the Income and Expenditure account.

Title to the freehold land and buildings is held by the Department for Transport, in the name of the Secretary of State. The control and management of the freehold land and buildings is vested in VOSA as if legal transfer has been effected.

Profit or loss on disposal of all categories of fixed asset is calculated on the revalued amount.

The minimum level for capitalisation as a tangible fixed asset is £500. Assets purchased in the year, which are in the course of construction, are classified as such (see note 7).

c. Depreciation

Properties

A full year's depreciation is charged in the first year that properties are commissioned and on any revaluation. The depreciation charge is calculated to write down the properties by equal instalments over their estimated useful lives as follows:

- Freehold land is not depreciated
- Freehold buildings over 17 - 40 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

Other categories

Depreciation is charged from the month of implementation and is calculated to write down the assets on a straight line basis over their estimated useful lives, as follows:

• Plant, equipment & vehicles	5 - 10 years
• Leased Equipment	Over the life of lease
• Computer hardware	3 years
• Bespoke computer software	2 - 10 years

Assets in the course of construction are not depreciated until commissioned.

d. Leasing

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease, with an equivalent liability categorised as appropriate under creditors due within and after more than one year.

The interest element of the rental obligations is charged to the Income and Expenditure account over the period of the lease.

Operating lease rentals are charged in the Income and Expenditure account on a straight line basis over the lease term.

e. Research and development

Expenditure incurred on pure and applied research is treated as an operating charge in the year in which it is incurred.

f. Pension scheme and early retirement scheme

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) in respect of their pensions. The PCSPS is an unfunded multi-employer defined benefit scheme but VOSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). Payment is made by VOSA into the Consolidated Fund of such sums to cover the accruing liabilities of the Treasury in respect of Superannuation benefits for persons who have been employed in the funded operations, and in respect of the administrative expenses attributable to the liabilities and their discharge.

VOSA operates an Early Retirement scheme which continues to pay retirement benefits to certain qualifying employees. These benefits conform to the rules of the PCSPS. VOSA 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 retiring age in respect of each employee has been charged to the Income and Expenditure account 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 pensions and related benefits payments to the retired employee until normal retiring age.

g. Value Added Tax

VOSA is not separately registered for Value Added Tax (VAT). VAT is accounted for centrally by the Department for Transport (DfT). Through the DfT registration, under specific Treasury Direction, VOSA recovers input VAT on certain contracted out services. Income and expenditure are shown net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised within additions to fixed assets.

h. Income recognition

Income for applications for operator licences, the granting of licences and the registration of bus routes is recognised at the time of application, grant etc. For all testing activities income is recognised at the time a test is performed. For all vehicle disc and continuation fees, income is apportioned equally over the length of the licence dependent on whether the operator has chosen to take up the option of a 1 year or 5 year payment basis. For all other goods and services income is recognised at the point of sale. Fees received in advance for which tests have yet to be performed or licences issued at the balance sheet date are shown as creditors.

i. Central funding

Funds received from Central Government budgets or other Departmental sources are released to the Income and Expenditure account in year against expenditure incurred, or in the case of capitalised assets, amortised over the useful economic life of the asset.

j. Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

2. Income and surplus/(deficit) on activities

The following information is produced for Fees and Charges purposes and does not constitute segmental reporting under Statement of Standard Accounting Practice 25. Income represents the revenue received for services provided by VOSA. All activities with the exception of a small element of Single Vehicle Approval work were carried out in the United Kingdom.

The income and surplus/(deficit) generated from the main activities of VOSA are:

	2004-05		2003-04		**Cumulative**	
	Income	**Surplus/ (Deficit)**	Income	Surplus/ (Deficit)	**Income**	**Surplus/ (Deficit)**
Activity	**£'000**	**£'000**	£'000	£'000	**£'000**	**£'000**
Testing	**51,594**	**1,404**	45,416	(3,414)	**469,574**	**(8,243)**
Administration of MOT testing scheme and standards control	**36,072**	**12,537**	33,115	12,413	**216,556**	**51,519**
Enforcement work	**20,608**	**(4,999)**	23,606	(1,192)	**239,663**	**(9,897)**
Licensing & Compliance	**14,442**	**251**	9,076	721	**23,518**	**972**
Total	**122,716**	**9,193**	111,213	8,528	**949,311**	**34,351**

The surplus/(deficit) is stated after charging £202,000 (2003-04 £223,000) being the amortisation of early retirement costs. Additionally the MOT scheme bears the cost of the MOT Computerisation project.

During the prior year, the DfT paid VOSA £1,500,000 in recognition of work completed in prior years but not paid for. This has been included in the Income from Activities figure reported in the Income and Expenditure Account, but is excluded from the comparative figures above as it does not relate to the year in question.

The cumulative position shows the scheme performance for the schemes operated by what was VI since it was established as a Trading Fund on 1 April 1991. Cumulative position is not shown on the schemes operated by the TAN division of DfT, as prior years were accounted for in the DfT Annual Accounts.

Other operating income

Other operating income relates predominantly to funding received to enable VOSA to carry out projects and policy objectives that are assigned to it by the Department for Transport. This is included within the surplus/(deficit) shown above, but is separately shown on the face of the Income and Expenditure Account.

3. Other operating charges

The major constituent parts of other operating charges are as follows:

	2004-05 £'000	2003-04 £'000
Hire of plant and machinery	**270**	254
Rent	**2,455**	1,880
Rates	**2,501**	1,758
Maintenance and estate running costs	**6,182**	5,971
Postage and stationery	**3,831**	3,906
Travel and subsistence	**6,675**	6,825
Computing	**17,631**	12,610
Audit fee - audit services	**53**	73
Rental income	**(1,148)**	(945)

4. Directing Board and Advisory Board

a. The salary and pension entitlement of the Directing Board of VOSA were as follows:

	1	2	3	4	5	6
	Salary	Real Increase in Pension and related lump sum	Accrued pension at age 60 at 31/3/05 and related lump sum	CETV at 31/3/04	CETV at 31/3/05	Real increase in CETV factors
	£'000	£'000	£'000	£'000	£'000	£'000
Mr Stephen Tetlow Chief Executive (From 06/12/2004)	40-45	0-2.5 plus 0-2.5 lump sum	0-5 plus 0-5 lump sum	0	7	6
Mr Maurice Newey Chief Executive (To 31/12/2004)	100-105	0-2.5 plus 2.5-5.0 lump sum	45-50 plus 140-145 lump sum	858	892	14
Mr Jeremy Rolstone Director	65-70	0-2.5 plus 2.5-5.0 lump sum	15-20 plus 55-60 lump sum	234	261	11
Mr Jeffrey Belt Director	80-85	0-2.5 plus 0-2.5 lump sum	15-20 plus 45-50 lump sum	279	300	5
Mr Hugh Edwards Director	75-80	0-2.5 plus 0-2.5 lump sum	20-25 plus 70-75 lump sum	409	436	8
Mr Martin Jones Director	70-75	0-2.5 plus 2.5-5.0 lump sum	15-20 plus 55-60 lump sum	225	255	14
Mr Robert Tatchell Director (To 20/07/2004)	15-20	0-2.5 plus 0-2.5 lump sum	20-25 plus 70-75 lump sum	354	367	3

Mr Alastair Peoples Director (From 07/12/2004)	30-35	0-2.5 plus 0-2.5 lump sum	0-2.5 plus 0-2.5 lump sum	0	4	3
Mr William Buckley Director	70-75	2.5-5 plus 7.5-10 lump sum	25-30 plus 80-85 lump sum	401	477	57
Miss Linda Willson Director	70-75	0-2.5 plus 5-7.5 lump sum	15-20 plus 45-50 lump sum	186	223	18

Salary includes gross salary, superannuation, performance pay or bonuses, and allowances to the extent that they are subject to UK taxation. During the year no directors were paid any benefits in kind, and the Agency did not make any contribution to a partnership pension account for any of the directors. Total accrued pension figures reflect full pensionable service.

Directors' pension benefits are provided through the Civil Service pension arrangements. All Directors opted to remain within the classic scheme when they were given the opportunity to choose between the three statutory based "final salary" defined benefit schemes (**classic, premium,** and **classic plus**) on 1 October 2002.

Columns 4 and 5 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 6 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

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 CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Service Parliamentary Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Mrs Elizabeth Bertoya, Mr John Doran and Mrs Geraldine Terry as non-executive directors, attend the VOSA Directing Board meetings each quarter. Mrs Bertoya also chairs the Audit and Risk Management Committee and Mrs Terry is a member of the Audit and Risk Management Committee. The Driver and Vehicle Operator (DVO) Group pay the non executive directors for their attendance at, and preparation for the above meetings.

Mr Maurice Newey retired from his post as Chief Executive at 31 December 2004.
Mr Stephen Tetlow was appointed to the post of Chief Executive Officer during December 2004 following open competition.

Mr Robert Tatchell left VOSA during July 2004, and the post was filled by Mr Alastair Peoples in December 2004 following open competition.

Miss Linda Willson was appointed as a Director during October 2004 through open competition having been undertaking the role on a temporary basis since October 2003. The salary disclosed in the above table is the total paid in the year.

b. Along with the members of VOSA's Directing Board named above, the following officers constituted VOSA's Advisory Board at 31 March 2005:

Mr Stephen Hickey: Chairman - Director General - Driver Vehicle and Operator Group
Mr Brian Wadsworth: Director - Logistics, Maritime Transport Directorate - Department for Transport
Mr Richard Jones: Director - Licensing, Roadworthiness and Insurance Division - Driver Vehicle and Operator Group
Mr Malcolm Blake-Lawson: Head of Commercial Vehicle Enforcement - Logistics Policy Division - Department for Transport
Mr Jonathan Moor: Strategy and Resources Director - Driver Vehicle and Operator Group
Mrs Elizabeth Bertoya: non-executive appointee
Mrs Geraldine Terry: non-executive appointee
Mr John Doran: non-executive appointee

5. Staff costs

a. Employment costs, including remuneration paid to the Directing Board members, were:

	2004-05 £'000	2003-04 £'000
Wages and salaries	**62,058**	57,919
Agency staff & Consultants	**3,095**	2,758
Social Security costs	**4,836**	4,148
Other pension costs	**8,029**	7,014
Total staff costs	**78,018**	71,839
Traffic Commissioners & Deputy Traffic Commissioners	**1,049**	844

The employees of VOSA are Civil Servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply.

The Principal Civil Service Pension Scheme **(PCSPS)** is an unfunded multi-employer defined benefit scheme but VOSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the **Cabinet Office:** Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers contributions of £7,984,000 were payable to the PCSPS (2003-04 £6,991,000) at one of four rates in the range 12 to 18.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will increase from 2005-06 to between 16.2% -24.6%.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002 civil servants were given the option to choose between one of three statutory based "final salary" defined benefit schemes (**classic, premium** and **classic plus**). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants joining after 1 October 2002 may choose between membership of the premium scheme or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (**partnership pension account**). Employers' contributions of £45,000 (2003-04 £23,000) were paid to one or more of a panel of four appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of 0.8% of pensionable pay, 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.

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. 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 to cover the cost of centrally-provided risk benefit cover (death in service and ill heath retirement).

b. The average monthly number of employees during the year was as follows:

VOSA Pay Level	Broad Category of staff in Band	**2004-05 Number**	2003-04 Number
1	Handypersons	**40**	39
2	Testers, Assistant Administrative Officers	**309**	314
3	Vehicle Inspectors, Administrative Officers, Apprentices	**1,009**	970
4/5	Vehicle and Traffic Examiners, Executive Officers	**918**	868
6	Senior Vehicle Examiners, Senior Traffic Examiners, Higher Executive Officers	**304**	286
7	Area and Regional Managers, Senior Executive Officers	**87**	88
8/9	Senior Management	**36**	34
10	Directors	**3**	7
	Senior Civil Servants	**4**	2
	Average number of employees	**2,710**	2,608
	Average number of Traffic Commissioners and Deputy Traffic Commissioners support (shown in man years)	**10**	9
	Agency and Consultancy support (shown in man years)	**64**	63
	Secondments Inward (shown in man years)	**1**	0
	Secondments Outward (shown in man years)	**(1)**	0

6. Interest and dividend payable

a. Interest payable

	2004-05 £'000	2003-04 £'000
On original vesting loan	**1,478**	1,478
On loan issued in 1996 - 1997	**60**	65
On loan issued in 1999 - 2000	**16**	37
On loans issued in 2000 - 2001	**63**	109
On loan issued in 2001 - 2002	**15**	50
On loans issued in 2003 - 2004	**820**	466
On loans issued in 2004 - 2005	**80**	0
In lieu of dividend on Public Dividend Capital in respect of current year	**252**	252
Interest payable to the Secretary of State	**2,784**	2,457
Interest payable on Finance Lease	**25**	34
Total Interest payable	**2,809**	2,491

When the VI Trading Fund was established in 1991, the opening Balance Sheet had more Public Dividend Capital than Long Term Loan. The normal gearing for a trading fund opening balance sheet is an equal proportion of Public Dividend Capital and Long Term Loan. The Trading Fund agreed to pay the Treasury £252,000 each year to cover interest foregone on the loan, which has continued in VOSA.

Finance lease

During 1999-2000 a long term leasing arrangement for new telephone exchanges was entered into. This leasing arrangement was increased during both 2002-03 and 2003-04, when additional equipment was installed. No additions were made during 2004-05.

b. Dividend payable

VOSA's average rate of return on capital to March 2005 was 13.8% against the financial target of an average 3.5%, as stated in Annex A on page 79 of the Annual Report. A dividend is payable from this target. This dividend is limited to the annual average target of 3.5%.

	2004-05 £'000	2003-04 £'000
Calculated level of return on average assets at 3.5%	**3,236**	2,637
Interest paid to the Secretary of State	**(2,784)**	(2,457)
Loan Capital repayment	**(3,186)**	(2,431)
Dividend payable	**(2,734)**	(2,251)

The calculated level of return to the Treasury is £3,236,000 based on the target average return of 3.5%. As the interest paid on long term loans of £2,784,000 and the capital repayment in year of £3,186,000 total more than the calculated level of return, no dividend is payable in respect of the 2004-05 financial year.

7. Tangible fixed assets

	Freehold land and buildings	Long Leasehold land and buildings (>50 yrs)	Short Leasehold Land and Buildings	Plant and Equipment	Vehicles	Finance Leased Equipment	Computer Equipment	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation									
At 1 April 2004	79,167	12,172	3,394	19,145	3,165	900	23,648	376	141,967
Additions	4,217	163	124	1,519	978	0	707	6,982	14,690
Disposals	0	0	0	(38)	0	0	0	0	(38)
Reclassification	319	280	123	111	0	0	0	(833)	0
Revaluation	4,024	(406)	0	(134)	19	0	(984)	0	2,519
At 31 March 2005	87,727	12,209	3,641	20,603	4,162	900	23,371	6,525	159,138
Accumulated depreciation									
At 1 April 2004	35,895	875	762	11,703	1,706	581	20,216	0	71,738
Charge for year	1,297	192	257	1,660	681	160	2,140	0	6,387
Disposals	0	0	0	(8)	0	0	0	0	(8)
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation depreciation	172	(2)	0	(87)	6	0	(568)	0	(479)
At 31 March 2005	37,364	1,065	1,019	13,268	2,393	741	21,788	0	77,638
Net Book Value									
At 31 March 2005	**50,363**	**11,144**	**2,622**	**7,335**	**1,769**	**159**	**1,583**	**6,525**	**81,500**
At 1 April 2004	43,272	11,297	2,632	7,442	1,459	319	3,432	376	70,229

Upon the establishment of the Vehicle Inspectorate (VI) as the first Executive Agency on 1 August 1988, the control and management of freehold land and buildings was vested in VI as if legal transfer had been effected. At this stage a useful economic life of these premises of 20 years was considered to be appropriate and the freehold buildings were depreciated on this basis.

Following the attainment of Trading Fund status on 1 April 1991, depreciation continued to be charged based on a 20 year useful economic life, in part due to the uncertainty over the period for which the Trading Fund concept would last.

VI (now VOSA, following the merger with the Traffic Area Network) has continued to depreciate the freehold buildings over the 20 year useful life since 1991, but now considers that depreciating these assets over this period does not provide a fair or accurate annual charge given the benefit that is derived from these assets. VOSA also considers that the carrying value of the freehold buildings in the accounts does not accurately reflect the current value of these assets to the organisation.

As a result VOSA has, during the year, carried out an exercise to reassess the useful economic lives of the freehold land and buildings. As a result, the useful economic lives of these assets have been reassessed at 40 years from 1 August 1988 with the net book value at 1 April 2004 being depreciated over the remainder of the useful economic life. The only exception to this is where it is not envisaged that the property will be retained for the full 40 years, in which case depreciation over the 20 year useful life has continued.

The effect of this change is a reduction in the depreciation charge for the year ended 31 March 2005 of £4.6m when compared to the depreciation charge that would have resulted if the previous treatment had been followed. Had this revised treatment been adopted in the year ended 31 March 2004, the effect would have been a reduction in the depreciation charge for the year of £3.5m.

20% of VOSA land and buildings was valued during 2004-05 by Powis Hughes and Associates. Plant, vehicles and computing assets were revalued by using appropriate indices.

All properties were occupied by VOSA and the basis of valuation was open market for existing use. It is the view of the valuer that where diminutions in value have occurred they are not of a permanent nature. The net surplus on the revaluation of land and buildings has been credited directly to the revaluation reserve. Diminutions in value in respect of all other categories of assets are considered to be of a permanent nature and the deficit arising is charged firstly to the revaluation reserve to the extent of any surplus brought forward in respect of those asset categories and any further deficit is charged to the Income and Expenditure account.

The net surplus arising in the year is £2,998,000 (2004 £1,287,000 surplus) of which a surplus of £3,461,000 (2004 £2,168,000) has been credited to the revaluation reserve. The deficit of £463,000 (2004 £881,000) on plant and equipment, and computing equipment has been charged to the Income and Expenditure account.

Assets in the category of plant and equipment with a net book value of £30,000 were sold for £8,000. This has been treated as an exceptional item on the Income and Expenditure account.

8. Debtors

	31 March 2005 £'000	31 March 2004 £'000
Trade debtors	**1,477**	826
Other debtors	**1,417**	152
Loans to staff	**154**	186
Prepayments and accrued income	**4,189**	192
Sub-total (cashflow movement)	**7,237**	1,356
Accrued interest	**392**	309
Total debtors	**7,629**	1,665

9. Creditors

a. Amounts falling due within one year:

	31 March 2005 £'000	31 March 2004 £'000
Fees in advance	**16,359**	15,922
Other creditors	**25,732**	25,771
Accruals and deferred income	**6,373**	3,006
Sub-total (cashflow movement)	**48,464**	44,699
Capital accruals	**559**	752
Long term loan due within one year	**2,053**	2,923
Finance lease due within one year	**170**	156
Dividend payable	**0**	0
Total creditors	**51,246**	48,530

Included within other creditors is an amount of £18,226,000 (2003-04 £17,911,000) in respect of funding received from the Department for Transport for various projects. This is credited to the Income and Expenditure Account to match the costs in respect of the projects as they are incurred, or amortised over the useful lives of associated assets.

b. Amounts falling due after more than one year:

	31 March 2005 £'000	31 March 2004 £'000
Fees in Advance (cash flow movement)	**45,500**	44,000
Finance lease due after one year	**14**	184
Total creditors falling due after one year	**45,514**	44,184

10. Finance leases

Obligations under finance lease agreements are repayable as follows:

	31 March 2005 £'000	31 March 2004 £'000
Within one year	**170**	156
Between one and two years	**14**	170
Between two and five years	**0**	14
Total	**184**	340

Obligations under finance lease agreements are secured on the assets concerned.

11. Average return on capital

The average return on net assets over the period 1 April 2003 to 31 March 2005 was 13.8%. This compares with the target, as stated in Annex A on page 79 of the Annual Report of an average of at least 3.5% over the period 1 April 2003 to 31 March 2008.

12. Notes to the cash flow statement

	2005	2004
	£'000	£'000
a. Return on investments and servicing of finance		
Interest receivable in year	**4,289**	2,280
Interest accrued at 1 April	**309**	44
Interest accrued at 31 March	**(392)**	(309)
Interest received in year	**4,206**	2,015
Interest paid in year	**(2,809)**	(2,491)
Net interest received/(paid)	**1,397**	(476)

	2005	2004
	£'000	£'000
b. Capital expenditure		
Fixed asset additions	**(14,690)**	(11,143)
Assets acquired under finance lease	**0**	25
Capital creditors at 1 April	**(752)**	(482)
Capital creditors at 31 March	**559**	752
Payments to acquire fixed assets	**(14,883)**	(10,848)
Receipts from sale of fixed assets	**8**	16
Net payments to acquire fixed assets	**(14,875)**	(10,832)

	2005	2004
	£'000	£'000
c. Financing		
Repayment of Loan from Secretary of State	**(3,186)**	(2,431)
New Loan from Secretary of State	**6,000**	10,000
Capital Repayment of Finance Lease	**(156)**	(140)
Net Financing	**2,658**	7,429

13. Analysis of changes in net funds

	At 1 April 2004 £'000	Cash Flow £'000	Other Changes £'000	**At 31 March 2005 £'000**
Cash in hand, and at bank	**105,239**	3,255	0	**108,494**
Loans due within one year	**(2,923)**	3,186	(2,316)	**(2,053)**
Loans due after one year	**(17,765)**	(6,000)	2,316	**(21,449)**
Finance Lease due within one year	**(156)**	156	(170)	**(170)**
Finance Lease due after one year	**(184)**	0	170	**(14)**
Total	**84,211**	597	0	**84,808**

The net funds position shown above excludes the vesting loan of £14,246,000 as this is a maturity loan with no capital repayments. Discussions with the Treasury are progressing with regard to the replacement of this loan in 2006.

14. Provision for liabilities and charges

	Early Retirement Total Costs £'000
At 1 April 2004	**326**
Provision in year	**43**
Payments during the year	**(193)**
At 31 March 2005	**176**

Under VOSA's Early Retirement scheme an additional provision of £43,000 was made in year (2003-04 Nil) for retirements or inflationary pension increases. A total of £193,000 (2003-04 £258,000) was transferred from the provision to fund pensions and related benefits payment. Six people voluntarily retired early during 2004-05 on ill-health grounds, with no additional accrued pension liabilities in the year.

15. Public Dividend Capital

	2005 £'000	2004 £'000
As at 1 April	**28,983**	28,983
As at 31 March	**28,983**	28,983

Public Dividend Capital of £19,100,000 was issued to the Trading Fund on 1 April 1991. This represented 57% of the value of the assets vested at that date. In 1996-97 an additional Public Dividend Capital of £1,231,000 was issued. This represented 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate. Additional PDC was issued of £8,652,000 being 50% of the vesting capital of the new Trading Fund Order upon the merger of TAN and VI. The total Public Dividend Capital issued at 31 March 2005 is £28,983,000.

16. Financial instruments

VOSA financial instruments comprise principally of loans from the Secretary of State, cash and various other items that arise directly from its trading operations such as trade debtors, fees in advance and finance leases. VOSA manages liquidity risk within the framework of operating as a Trading Fund within the Department for Transport such that income is generated sufficient to meet expenditure on ongoing activities. Additional funding requirements arising from new initiatives, etc. being placed on VOSA are sought from the Department for Transport prior to any expenditure being committed.

a. Interest rate risk

VOSA finances its operations through the loans from the Secretary of State (for which detailed disclosure can be found in note 17) and finance leases (for which detailed disclosure can be found in note 10).

b. Foreign currency risk

VOSA has negligible exposure to foreign currency risk arising from activities undertaken within the European Union. What risk exists is managed by holding a Euro currency bank account.

c. Financial rate risk profile of financial assets and financial liabilities

i. Financial assets

The only financial asset held by VOSA other than short term debtors is its cash balance. The balance is held in short term interest bearing accounts and a significant part of it is held in the account at the Paymaster General's Office.

ii. Financial liabilities

The only significant liabilities held by VOSA at 31 March 2005 were the loans from the Secretary of State. The maturity profile is shown below:

	31 March 2005 £'000	31 March 2004 £'000
In one year or less, or on demand	**2,053**	2,923
In more than one year but less than two years	**15,965**	1,716
In more than two years but no more than five years	**5,159**	19,524
More than five years	**14,571**	10,771
Total	**37,748**	34,934

The detail regarding the interest rates of the specific loans can be found in note 17.

The above disclosures highlight how VOSA has structured its financial liabilities in order to provide both adequate and flexible financing.

17. Loans from the Secretary of State

Loans issued prior to 1 April 2003 were issued to the VI Trading Fund and these loans were transferred into VOSA. Loans issued after this date have been issued to the VOSA Trading Fund.

	Long Term Repayment Due	
	Within one year (included in Creditors) £'000	After one year (included in Capital & Reserves) £'000
Loans outstanding at 31 March 2005 comprise:		
Original Vesting Loan 15 year maturity loan @ 10.375%	0	14,246
Loan issued in 1996 - 1997 20 year repayment loan @ 8.25% interest	62	615
Loan issued in 2001 - 2002 5 year repayment loan @ 5.5% interest	333	0
Loan issued in 2003 - 2004 15 year repayment at 4.35% interest	581	6,973
Loan issued in 2003 - 2004 15 year repayment at 4.9% interest	677	8,461
Loan issued in 2004 - 2005 15 year repayment at 4.6% interest	400	5,400
Total of maturity and repayable loans	2,053	35,695

A 15-year maturity loan of £14,246,000 at 10.375% was issued to the Trading Fund from the Department of Transport when it became a Trading Fund on 1 April 1991. This represented 43% of the value of the assets vested at that date.

In 1996 - 1997 a 20-year repayment loan of £1,230,000 at 8.25% was issued. This represents 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate.

In 1999 - 2000 a 5-year repayment loan of £1,000,000 at 6.375% was issued. This represented the first tranche of a loan to provide the resources and facilities to undertake tests associated with the introduction of the Enhanced Single Vehicle Approval Scheme and was repaid during the year.

During 2000 - 2001 a 5-year repayment loan of £2,000,000 at 6.25% was issued being the second tranche of the loan to provide the resources and facilities to undertake tests associated with the introduction of the Enhanced Single Vehicle Approval Scheme. Also in 2000-2001 a 5-year repayment loan of £1,000,000 at 6.125% was issued. This represented the first tranche of loans to enable the development of a new testing and training facility at Chadderton in the North West of England and was repaid during the year.

During 2001 - 2002 a 5-year repayment loan of £1,000,000 at 5.5% was issued being the second tranche of the loan to enable the development of a new testing and training facility in Chadderton.

During 2003 - 2004, on the merger of VI and TAN, a 15-year repayment loan of £8,653,000 at 4.35% representing 50% of the value of net assets vested in VOSA when it was formed on 1 April 2003.

During 2003 - 2004 a 15-year repayment loan of £10,000,000 at 4.9% was provided to enable the commencement of a programme to refurbish the testing station estate of VOSA.

During 2004 - 2005 a 15-year repayment loan of £6,000,000 at 4.6% was provided to develop a Commercial Customer Portal to facilitate the provision of e-enabled services for all commercial customers of the DVO Agencies.

All loans are unsecured.

18. Capital commitments

There were no capital commitments at the end of either the 2004-05 or the 2003-04 financial years.

19. Other commitments

As at 31 March 2005 VOSA had annual commitments under operating leases in respect of land and buildings as follows:

	2005 £'000	2004 £'000
Expiry date:		
Within one year	759	700
Between one and five years	966	978
After more than five years	1,139	1,088
Total	2,864	2,766

20. Related party disclosures

The Department for Transport is regarded as a related party. During the year VOSA has had various transactions with the Department and with other entities for which the Department is regarded as the parent Department, namely the Driver and Vehicle Operator Group, Driving Standards Agency and the Driver and Vehicle Licensing Agency.

In addition VOSA has had a small number of transactions with other Government Departments and other central government bodies. Most of these transactions have been with the Treasury Solicitors Department.

None of the Directing Board members, key managerial staff or other related parties has undertaken any material transactions with VOSA during the year.

21. Private Finance Initiative

In February 2000 a contract, under the Private Finance Initiative (PFI), was entered into with Siemens Business Services (SBS), for the provision of a computerised service for MOT testing and administration. This has not been recognised in the Balance Sheet. Payments to SBS for the delivery of this service will commence when the national rollout of the computerised system commences. However, under the terms of the contract, costs are payable by either party as a result of default of their obligations or voluntary break of the contract before the official termination date. These termination costs will vary dependent on the period of the contract that has expired.

At the Balance Sheet date of 31 March 2005 SBS had incurred significant costs in the design and development of the systems. In the event that VOSA were to terminate the contract, any cost that VOSA were liable to pay would be established, taking into account the circumstances that triggered the termination, based on the mechanisms within the VOSA/SBS PFI Services contract.

22. Contingent liabilities

There were no contingent liabilities at 31 March 2005.

23. Post balance sheet events

There have been no events since the end of the financial year, which would affect the understanding of these financial statements.

24. Intra government balances

	2005			2004		
	Debtors	Creditors due within 1 year	Creditors due after 1 year	Debtors	Creditors due within 1 year	Creditors due after 1 year
	£'000	£'000	£'000	£'000	£'000	£'000
Balances with other Central Government bodies	2,385	21,942	0	603	23,336	0
Balances with Local Authorities	74	0	0	0	0	0
Balances with Public Corporations and Trading Funds	545	0	0	320	0	0
Balances with bodies external to Government	4,625	29,304	45,514	742	25,194	44,184
Total	7,629	51,246	45,514	1,665	48,530	44,184

Annex A

Vehicle and Operator Services Agency

Setting of further financial objectives for the period 1 April 2003 to 31 March 2008

1. Section 4(1) of the Government Trading Funds Act 1973 ("the 1973 Act") provides that a trading fund established under that Act shall be under the control and management of the responsible Minister and, in the 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 VOSA was established on 1 April 2003 under VOSA Trading Fund Order 2003 (SI 2003 No. 942).

3. The Secretary of State for Transport, being the responsible Minister for the purposes of section 4(1)(a) of the 1973 Act, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by VOSA for the period from 1 April 2003 to 31 March 2008 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. 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.

(Treasury Minute dated 11 March 2004)

Glossary

ADR	International arrangement for the carriage of dangerous goods
AE	Authorised Examiner - individual, person in partnership or company meeting the requirements (premises, equipment, personnel and good repute) to carry out MOT testing
ANPR	Automatic Number Plate Recognition
CCP	Commercial Customer Programme
CITA	Comité International de l'Inspection Technique Automobile - International Motor Vehicle Inspection Committee
COIF	Certification of Initial Fitness
DDA	Disability Discrimination Act
DfT	Department for Transport
DSA	Driving Standards Agency
DVLA	Driver and Vehicle Licensing Agency
DVO	Driver, Vehicle and Operator group
ECWVTA	European Community Whole Vehicle Type Approval
ESVA	Enhanced Single Vehicle Approval scheme
EU	European Union
GAIN	Government Agency Intelligence Network
GVTS	Goods Vehicle Testing Station
HA	Highways Agency
HGV	Heavy Goods Vehicle - good carrying vehicle over 3,500kg design gross weight
ICT	Information Communications Technology
IDELSY	Initiative for Diagnosis of Electronic Systems
IRFO	International Road Freight Office
LGV	Light Goods Vehicle - goods carrying vehicle not exceeding 3,500kg design gross weight
MAAST	Multi-Agency ANPR Strategy Team
MORI	Market and Opinion Research International
MOT	Annual statutory test for cars and motorcycles
MSVA	Motorcycle Single Vehicle Approval scheme
NT	Nominated Tester - qualified mechanic who has been nominated by an AE to carry out MOT tests
OBD	On Board Diagnostics
OSS	One Stop Service
PNC	Police National Computer
PSV	Public Service Vehicle - vehicle licensed to carry (normally nine or more) fare-paying passengers
SVA	Single Vehicle Approval scheme
TAN	Traffic Area Network
TAO	Traffic Area Office
TCs	Traffic Commissioners - seven TCs are appointed by the Secretary of State for Transport and are statutorily independent in their licensing functions
TE	Traffic Examiner - VOSA employee responsible for front-line enforcement of safety and licensing provisions on HGVs and PSVs
TIR	International arrangement for the carriage of goods sealed for Customs purposes

TRL	Transport Research Laboratory
UN	United Nations
VCA	Vehicle Certification Agency
VE	Vehicle Examiner - VOSA employee responsible for front-line enforcement of roadworthiness of HGVs and PSVs and standards control of MOT testing stations
VFM	Value for Money
VI	Vehicle Inspectorate
VIC	Vehicle Identity Check
VOSA	Vehicle and Operator Services Agency
WIMS	Weigh in Motion Sensor

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