VOSA

Vehicle & Operator Services Agency

Annual Report & Accounts 2011/12

An executive agency of the Department for Transport

Saving lives, safer roads, cutting crime, protecting the environment

Vehicle and Operator Services Agency

Annual Report and Accounts 2011/12

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Introduction

About VOSA

VOSA is an Executive Agency for the Department for Transport (DfT). We contribute to saving lives, making roads safer, cutting crime and protecting the environment through ensuring compliance with regulations of drivers, operators, vehicles, MOT garages and maintainers. Our main activities include:

- Conducting statutory annual testing for commercial vehicles and certain private vehicles;
- Conducting routine and targeted checks on vehicles, drivers and operators to ensure compliance with road safety legislation;
- Supervising the MOT scheme to ensure that over 21,300 garages authorised to carry out MOT tests are doing so to the correct standards;
- Providing administrative support to the Traffic Commissioners in considering and processing applications for licences to operate commercial vehicles and allow them to carry out their independent regulatory function;
- Providing a range of educational and advisory activities at the roadside and at operators' premises to promote road safety; and
- Conducting post-collision investigations and monitoring products on the market for manufacturing or design defects, highlighting safety concerns and monitoring safety recalls.

Our Strategic Direction

VOSA's vision for the future is one where operators, drivers and MOT garages are fully compliant with regulations.

In March 2010 the Directing Board agreed a new strategic framework, followed in March 2011 by endorsement of a clear Blueprint for the future. These set out the management of compliance into four key areas of work:

- Testing & Inspection;
- Licensing & Authorisation;
- Enforcement; and
- Education and Information.

How, when and where we deliver these will alter as we embed an increasingly risk and evidence–based approach which is proportionate and targeted according to the principles below:

- Targeting those operators, drivers, MOT garages and speed limiter / tachograph centres most likely to be non-compliant;
- Targeting areas of non-compliance most likely to cause accidents / incidents;
- Ensuring we are effectively located;
- Partnering more effectively with regulatory bodies and trade; and
- Adopting a graduated approach to sanctions.

For more information about our role and background, see page 16 in the Directors' Report section, or visit our website at www.vosa.gov.uk.

About this report

This Annual Report is the principal means for formally reporting to Ministers and Parliament on VOSA's performance and its statutory financial statements. It covers 1 April 2011 until 31 March 2012.

Within the chapters up to and including "Delivering the Plan" we particularly focus on performance against our performance measures and objectives as well as other Agency business targets and specific Government targets.

Foreword

From our Chief Executive, Alastair Peoples

This year has seen some very good progress across a number of schemes within the Agency. We met all of our Secretary of State key performance measures including establishing the 75th new Authorised Testing Facility (ATF) three months ahead of target and, by March 2012, 116 ATF contracts had been signed – almost twice the number that opened in the previous year. Over 40% of tests were carried out at sites outside of the VOSA estate by March 2012 compared with 27% at the start of 2010/11. As part of our Testing Transformation Programme we ceased testing at a further five VOSA test sites.

In February 2012 we hosted the first national ATF forum – a unique opportunity for representatives from ATFs to share their experiences of all the processes involved in setting up and running an ATF - with the aim to work in partnership and build on our combined experiences to strengthen the process going forward.

We introduced changes to the annual test in line with European directives, designed to harmonise testing standards throughout Europe. At the same time we have researched opportunities to simplify other elements of the test ensuring continued value for money to the industry.

We continue to improve the effectiveness of our enforcement work. Our prohibition rate through targeted checks was almost 28% compared with a rate of 15% through the sample of checks carried out on a random basis. Our enforcement staff also work closely with other law enforcement Agencies such as HMRC and the police. During one roadside check this year both illegal fuel and a significant quantity of cannabis resin were discovered. We also identified a fraudulent over-claim on bus subsidies which saved DfT over £300,000.

We continue to support the independent Traffic Commissioners in their provision of operator licences. We also worked collaboratively with them to introduce a National Register database for all Transport Managers, following a European directive. We achieved Customer Service Excellence accreditation for the third consecutive year in both the Customer Service Centre and Operator Licensing.

Underpinning everything that we do is the continuation of our financial recovery, with a second consecutive in-year surplus despite continuing reductions in income, increasing external costs and no general statutory fee increases since 2009. To support a sustainable future, we have established a Business Excellence team that is leading the delivery of an Improvement Programme and supporting staff in creating a culture of continuous improvement.

For the first time ever all staff were invited to apply to participate in a major business workshop designed to review and recommend changes to a range of existing working practices and input to the development of our longer term vision and plans. Following an encouraging show of interest just over 100 staff attended a very successful event.

We have been proud to champion the Get Britain Working Government initiative on behalf of DfT and we hosted over 100 placements during 2011/12 with more planned for 2012/13.

This successful year is thanks to VOSA staff despite continuing to work within the constraints of challenging economic times.

Performance Summary

This performance framework summarises our performance objectives for the year and details how we performed against them. Throughout the year VOSA's Business Delivery Board performs a monthly scrutiny role of performance against objectives, and the Motoring Services Group receives a monthly summary as part of DfT's performance review governance. VOSA's Directing Board reviews performance on a quarterly basis and the Audit & Risk Committee review annually as part of the Annual Report & Accounts process.

Performance measures	Outcome	Detail
Testing transformation: • Deliver 75 new operational Authorised Testing Facilities (ATFs) by 31 March 2012; and • Develop 25 plans for the future estate requirement and gain commitment to those plans from DfT	Achieved Achieved	116 new sites 26 plans agreed Refer page 9
Through improved targeting, VOSA will exceed the randomly sampled non-compliance baseline by 10%	Achieved	12.8 percentage points Refer page 11
Protecting the environment – cut carbon emissions from Agency buildings and business use of vehicles in 2011/12 by 5%	Achieved	9% reduction Refer page 15
Deliver support services to the Traffic Commissioners in line with the Service Level Agreement (SLA) with the Senior Traffic Commissioner (STC)	Achieved	All 16 measures within the SLA met
Increase the take-up of key digital services by March 2012 – 60% overall	Achieved	Agreed levels of take-up of four services achieved Refer page 13
Ensure sufficient deployment of staff within the business plan complement of 2,312 set for 31 March 2012.	Achieved	Staff FTE of 2,131 at 31 March 2012
Ensure the average number of working days lost per Full Time Equivalent (FTE) due to sickness absence does not exceed 8.5 days	Achieved	Average of 7.7 days
Deliver financial performance in line with Business Plan - £5m surplus Deliver efficiency savings of £1.2m by 31 March 2012	Achieved Achieved	Surplus of £16m Exceeded £1.2m savings Refer page 14
Deliver the eight customer service promises 80% of undisputed and settled invoices paid within 5 days 93% of Freedom of Information requests completed within 20 working days 85% of answers to Parliamentary Questions provided by due date 85% of MPs' correspondence responded to within 7 working days 80% of official correspondence responded to within 20 working days	Achieved Achieved Achieved Achieved Achieved Achieved	All promises delivered 86% 98% 98% 99% 99%

Testing and Inspection

Performance Measures

- Deliver 75 new operational Authorised Testing Facilities (ATFs) by 31 March 2012
  - ✓ 116 ATFs opened
- Develop 25 plans for the future estate requirement and gain commitment to those plans from DfT
  - ✓ Plans were developed in 26 areas

This is the third year of our programme to transform the way we carry out testing operations which enables us to move testing closer to the customer. During the year 53 new ATFs were opened and 63 Designated Premises converted to ATF status. We have committed to increase the number of active ATFs to in excess of 200 during 2012/13.

Market analysis was carried out in 26 areas to develop plans to support the private sector to open further ATFs. As more contracts with third party testing facilities are put in place an increasing proportion of tests will be carried out by our staff at these premises. There has been a particular focus in-year on resource modelling work to ensure that there is sufficient staff resource available to carry out the increasing number of tests at ATFs.

Within our resource planning we have taken into account a number of variables including location, test volume expectations and staff turnover. This work has also enabled us to plan future recruitment campaigns in anticipation of predicted changing resource requirements.

By March 2012 over 40% of tests were being carried out at non-VOSA sites and this figure is expected to grow to in excess of 50% by March 2013.

In response to 2009/40/EC[1] requirements to add a number of new items into the test, we introduced these items as advisory checks from 1st January 2012. They will then be introduced as items that can result in a test failure during 2012/13 when the legislative process is complete. The approach of offering an advisory check for an interim period allows the industry and motorists more time to become familiar with the new test items.

We have reviewed the test content to identify ways to simplify it where possible while adhering to EU regulations. As a result of work carried out up to and during 2011/12 we are considering optional jacking of heavy vehicles and a trial of selective metered heavy duty diesel smoke testing during 2012/13. We are awaiting the outcome of work by the Transport Safety Research Institute at Loughborough University on light vehicle headlamp aim testing to confirm there is no significant risk to road safety before considering making further changes to test content.

Other activities during 2011/12 included:

- Delivery of the latest phase of the Individual Vehicle Approval scheme (IVA) with demand already increasing as many bus and coach builders begin producing vehicles to IVA standards;
- Supporting Transport for London to introduce phases 3 and 4 of the London Low Emission Zone in January 2012 and training 848 independent Authorised Examiners across 276 locations to carry out initial Low Emission Checks for vehicles wanting to travel into the Zone;
- The DfT review of MOT testing. We published our 2010/11 MOT Compliance Survey which informed work with DfT to progress the Secretary of State's ideas for enhancing the Garage Customer Experience. We also progressed plans for 2012/13 to list mileage readings on VT20 test certificates to help to deter the practice of 'clocking'; and
- The DfT review of the Vehicle Identity Check (VIC) scheme. We worked closely with DfT to narrow down potential options for the future of VIC to enable the Minister to launch a consultation.

[1] 2009/40/EC is a European Directive to bring new items into annual tests, designed to ensure a consistent approach across Europe.

Enforcement

Performance Measure

- Through improved targeting, VOSA will exceed the randomly sampled non-compliance baseline by 10 percentage points.
  - ✓ We exceeded the baseline of 15% by 12.8 percentage points

Detailed in-year analysis of trends in incidents and in evidence of non-compliance both geographically and within specific traffic flows informed our targeting at national, regional and local level. We subsequently carried out a series of coordinated activities targeting operators, vehicles and drivers at the right time in the right place and continuous assessment enabled any necessary follow up remedial actions to be agreed and swiftly implemented. In addition, we ran a number of national master classes sharing best practice and strengthening our ability to focus attention on areas of non-compliance including magnets on digital tachographs.

We have made enhancements to our Operator Compliance Risk Score system through improvements to the processes, data and accompanying educational material which will result in a new release of the system in 2012/13. We have also developed an Enforcement modelling tool which will identify the proportionate distribution of staff resource based on levels of risk and funding. The model will be adopted during 2012/13. Both of these activities will improve our ability to be more effective at targeting non-compliance.

Other activities during 2011/12 included:

- Working closely with DfT to develop the enforcement requirements for the planned HGV Road User Charging. We also supported DfT in the progression of next generation digital tachographs including contributing to forums through the year. We will continue to work closely with DfT on both these areas of work during 2012/13;
- Carrying out an initial pilot using Automatic Number Plate Recognition and Weigh in Motion Sensors to identify likely instances of non-compliance, initially of overloaded vehicles. A continuation of this pilot is planned for 2012/13 before drawing any conclusions of its potential to remotely advise operators of instances of non-compliance;
- Successful partnership working with the UK Border Agency resulting in formal agreement to access to their Freight Targeting System;
- Introducing an immobilisation release fee that will enable staff to promptly release a prohibited vehicle once any defects have been rectified; and
- Introducing new MOT garage site assessments that are more robust, objective and efficient for both VOSA and the MOT industry.

Licensing & Authorisation

Performance Measures

- Deliver support services to the Traffic Commissioners in line with the Service Level Agreement (SLA) with the Senior Traffic Commissioner (STC)
  - ✓ All 16 measures within the SLA were met
- Increase the take-up of key digital services to 60% by March 2012:
  - Maintain customer take-up for combined operator self service and extended service transactions at 70%
  - ✓ Take-up reached 71.2%

We achieved Customer Service Excellence accreditation for the third consecutive year in both our Licensing Offices and Customer Service Centre. Evidence is assessed across a wide range of areas, including 'compliance plus' which is when the assessor believes the unit excels in a particular area and can be seen as an exemplar to other businesses. The teams received a total of 3 compliance plus awards this year.

Other activities during 2011/12 included:

- Delivering an electronic National Register for Hire and Reward operators in line with EU requirements, including the provision of appropriate data and technology;
- Launching a new partnership-based approach to improving bus punctuality with a new SLA agreed with DfT that endorses closer working with operators and local authorities;
- Drafting a Memorandum of Understanding with the Driver and Vehicle Agency (DVA) in Northern Ireland to establish new administrative processes for operator licensing; and
- Developing a centralised application point for new ATFs and also for future applicants to the MOT scheme.

Supporting Industry through Education and Information

Performance Measures

- Increase the take-up of key digital services to 60% by March 2012:

- 50% of HGV fleet will have access to First Time Pass Rate, Encounter and OCRS Reports
    - ✓ Over 50% now have access compared with 30% at March 2011

- 60% of known Preparers registered for New First Time Pass Rate report service
    - ✓ Over 90% are now registered

- 70% of known HGV Leasing companies registered for New First Time Pass Rate report service
    - ✓ 28 HGV leasing companies registered equating to in excess of 70% of the industry

- Over 50% of HGV fleet receive communications digitally (e.g. Moving On)
    - ✓ 51.7% received Moving On digitally

We made good progress in encouraging industry to go online to carry out a range of day to day operational services as well as access various information that will help them to improve their compliance levels. In particular, as we have seen an increased trend in Operators' vehicles that are being outsourced for preparation, we worked with the Society of Motor Manufacturers & Traders as well as the British Vehicle Rental & Leasing Association to significantly increase the number of known preparers and leasing companies that have access to the First Time Pass Rate reports.

Other activities during 2011/12 included:

- Developing a seminar for Operators who have recently been granted a licence. We also carried out targeted educational seminars for those in the industry involved in construction and transportation that is supporting delivery of the Olympics to provide assurance that these companies have appropriate compliance regimes in place;
- Delivering 91 MOT seminars to 9,000 delegates on a range of MOT-related subjects including the new test elements introduced by the new testing Directive; and
- Working with specific industry sectors to tailor information to help increase awareness of how to keep compliant – for example, through launching a new horsebox owner compliance guide at the Windsor Horse Show.

Delivering the Plan

Managing our Finances

Performance Measures

- Deliver financial performance in line with Business Plan
  - ✓ Financial plan delivered
- Deliver efficiency savings of £1.2m by 31 March 2012
  - ✓ £1.2m savings exceeded

2011/12 was the second year of our financial recovery plan. We made an in-year surplus for the second consecutive year and are progressing well towards achieving a sustainable and financially sound Trading Fund despite external cost increases, no general statutory fee increase since 2009 and lower testing and licensing-related income.

We continued to identify ways to deliver efficiency savings with the following being some specific areas of focus during 2011/12:

- We rationalised our data centre reducing the number of physical servers by 75% resulting in reduced running costs and a reduced carbon footprint;
- We introduced new printers to all MOT garages and made the transition to plain paper for MOT documentation delivering an initial saving in 2011/12 of £0.6m;
- As part of the Efficiency and Reform Group/Cabinet Office initiative to move to more centralised pan-Government procurement, office and computer consumables, vehicle hire and travel all moved to the centralised system during the year; and
- Members of our Business Excellence Team received training on methods to apply continuous improvement with the assistance of Her Majesty's Revenue & Customs' Lean Academy and Cardiff University Business School.

Workforce Management

Performance Measures

- March 2012
  - ✓ Staff FTE of 2,131 at March 2012
- Ensure the average number of working days lost per Full Time Equivalent (FTE) due to sickness absence does not exceed 8.5 days
  - ✓ Measure exceeded with an average number of days lost of 7.7

Our average number of working days lost per FTE for sickness absence reduced from 9.1 to 7.7 between 2010 and 2012. This is a particularly impressive achievement in the current challenging economic climate in which VOSA and its staff operate.

In 2011/12 we reviewed the way we manage change which has contributed towards an overall improvement in our level of staff engagement. In particular we:

- Encouraged greater staff participation in reviewing and prioritising our plans for the next five years through business workshops;
- Carried out regular and consistent corporate briefings to all staff;
- Published our corporate plan for further staff engagement, focusing on four key areas of leadership, involvement, performance management and change; and
- Worked with a range of staff to develop the 'VOSA Journey – our route to compliance'.

VOSA acted as the DfT champion for the Get Britain Working initiative to provide placement opportunities for unemployed 18–25 year olds to get into work. We have hosted over 100 placements during 2011/12 with more planned for 2012/13.

Estate Management

Performance Measure

- Protecting the environment – cut carbon emissions from Agency buildings and business use of vehicles by 5% by 31 March 2012
    - ✓ 9% reduction

Plans were developed in line with our Enforcement Site Strategy and in line with one of our strategic principles to ensure that we are effectively located to support a risk and evidence-based approach to our enforcement activities. We delivered both financial and environmental savings through the reduction of our estate. In particular we relocated a number of staff into other existing sites thus enabling us to vacate certain premises.

As our programme to expand the number of Authorised Testing Facilities makes steady progress we have managed the ceasing of testing at 5 sites during 2011/12.

Details of our achievements in reducing the carbon footprint can be found within the Sustainability Report on pages 25 to 28.

Directors' Report

The role of VOSA

As stated in the Introduction to this Report on page 4, VOSA is an Executive Agency for the Department for Transport (DfT). We contribute to saving lives, making roads safer, cutting crime and protecting the environment through ensuring compliance with regulations of drivers, operators, vehicles, MOT garages and maintainers.

We deliver compliance through licensing, testing and education services, and, where necessary, take enforcement action against those who are non-compliant, for example through issuing fixed penalties or through the immobilisation of vehicles. We also ensure that we review our activities in line with changing patterns of non-compliance and accident causation, for example, the increasing numbers of non-GB vehicles on our roads.

Background

The Vehicle and Operator Services Agency (VOSA) is a Trading Fund. It operates within the Department for Transport (DfT) and was 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.

Financial Objectives

VOSA has the financial objectives of:

- 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;
- to earn an average return on capital of 3.5% per annum over the period 1 April 2008 to 31 March 2013 as set out in the HM Treasury minute reproduced at Annex A to the Accounts; and
- to achieve £1.2m of efficiency savings in-year.

VOSA Governance

Details of VOSA's governance and those individuals who constitute the Directing Board and its sub-boards is set out in the Governance Statement on pages 36 to 54 of this Report.

Pension liability

The employees of VOSA are Civil Servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. Pension scheme benefits are outlined in the Remuneration Report and these entitlements apply to all staff.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. VOSA is unable to identify its share of the underlying assets and liabilities.

Provision is made within the Accounts to meet early retirement costs payable by VOSA up to the employee's normal retirement age.

Staff engagement

During 2011/12 VOSA employed, on average, 2,167 (full-time equivalent) people (2010/11 2,339).

Policy and practice on the payment of liabilities

VOSA is committed to both the Confederation of British Industry Prompt Payment Code and Department for Business Innovation and Skills Better Payment Practice. The policy is that all bills should be paid in accordance with contractual conditions. Where no conditions exist, payment will be made within 30 working days of the receipt of goods or services, or the presentation of a valid invoice, whichever is the later. We achieved payment in accordance with this policy in 99.96% of transactions for the year ended 31 March 2012. (2010/11 99.9%) The performance is measured in accordance with HM Treasury guidelines.

In addition to the 30 day target, we endeavour to pay suppliers, especially Small and Medium sized Enterprises, within 5 days. We achieved payment in accordance with this policy in 86.0% of transactions for the year. (2010/11 83.6%)

Market value of land and buildings

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.

Specialised sites (e.g. Goods Vehicle Test Stations and enforcement sites) are valued at Depreciated Replacement Cost and we consider that the book value is a true and fair reflection of the future benefits of these sites.

The accounting policy for non-current assets is set out in note 1b of the Accounts and the movements in non-current assets are set out in notes 6 and 7 of the Accounts.

Auditors

The Accounts of VOSA are audited by the Comptroller and Auditor General and his Certificate and Report to the Houses of Parliament is presented in the Annual Accounts at page 55. The financial statements are audited in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

Audit fees charged in the Accounts amount to £78,300 (2010/11 £80,000) which includes the audit of the Trust Fund Statement in Annex B. There were no non-audit fees charged in 2011/12 or 2010/11.

Disclosure of audit information to VOSA's auditors

As far as the Accounting Officer is aware:

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

Accounts direction

The Accounts on pages 58 to 93 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 Annex C to Dear Accounting Officer letter [DAO (GEN) 05/11].

Management Commentary 2011/12*

Financial performance overview

As a Trading Fund VOSA's activities are funded through fees and charges with some additional funding for enforcement activities provided from the Single Enforcement Budget administered by DfT (monitored through Service Level Agreements, acting on HM Treasury's behalf).

Our long term financial strategy is to:

- recover the General Fund deficit within five years (from 2010) through cost reduction;
- reduce the level of debt; and
- maintain sufficient cash within the business to meet short term obligations and provide sufficient working capital.

We are well on track to achieve our objectives. 2011/12 is the second year of our financial recovery plan and, following on from a successful 2010/11, represents another excellent step in achieving our aim of a sustainable and financially sound Trading Fund. In particular we exceeded our Secretary of State key performance measure by realising a surplus of £16.7m, (2010/11 £11.3m) despite ongoing difficult trading conditions, a further downturn in income and no general fee increase.

Through more efficient deployment of resources we reduced staff numbers by 135, achieved primarily through flexible early retirement and severance. This contributed to staff cost savings of over £3.9m (excluding the reduction in early retirement costs). In addition, significant savings were seen in the categories of Information Technology, Consultancy and Legal and Banking, and we were also able to absorb increases in recurrent rent and rates costs.

Increased controls and improvement in cash flow has resulted in capital expenditure during the year being funded without the need of loan financing. The total value of our outstanding loans, (including balances shown as due within one year and after one year) has reduced from £98.6m at 31 March 2011 to £76.1m.

The General Fund deficit has reduced from £(35.3)m (as restated) at 31 March 2011 to £(17.0)m due to the in year surplus of £16.7m and the recognition of a revaluation surplus arising on the disposal of a property of £1.6m. During the year it was identified that negative revaluation balances for a number of properties were included in the revaluation reserve. Under International

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* The Annual Report meets HM Treasury requirements for disclosure of matters to be dealt with in the Directors' Report, the Management Commentary and the Remuneration Report and provides a high level overview of the main areas of VOSA's financial performance for the prior, current and future business planning year. The commentary focuses on the financial performance of VOSA for the year 2011/12. Commentary on performance against VOSA Secretary of State Key Performance Measures and other Key Performance Indicators can be found on pages 8 to 15 of the Annual Report.

Financial Reporting Standards (IFRS) these negative balances should have been charged to the General Fund. We have therefore made a prior year adjustment in the Accounts. The effect of this adjustment increased the deficit on the General Fund as at 1 April 2010 from £(36.8)m to £(46.6)m, and increased the revaluation reserve from £16.5m to £26.3m. As at 31 March 2011 the deficit on the General Fund increased from £(25.5)m to £(35.3)m and the revaluation reserve increased from £12.9m to £22.7m.

Despite income continuing to fall we currently forecast a surplus of £7.0m in 2012/13. In delivering this we continue to embed a culture of continuous improvement throughout the organisation and support the Efficiency and Reform Group/Cabinet Office initiative to move to more centralised pan-Government procurement.

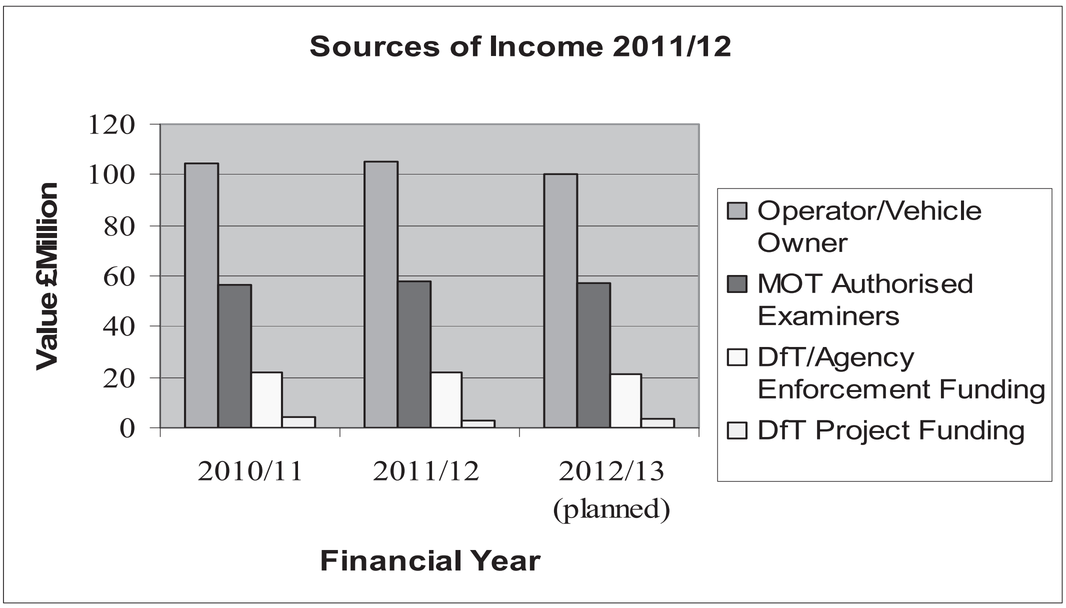
During 2012/13 we will continue work on migration plans to enable the Agency to transfer its transactional support services into a newly divested DfT Shared Service Centre.

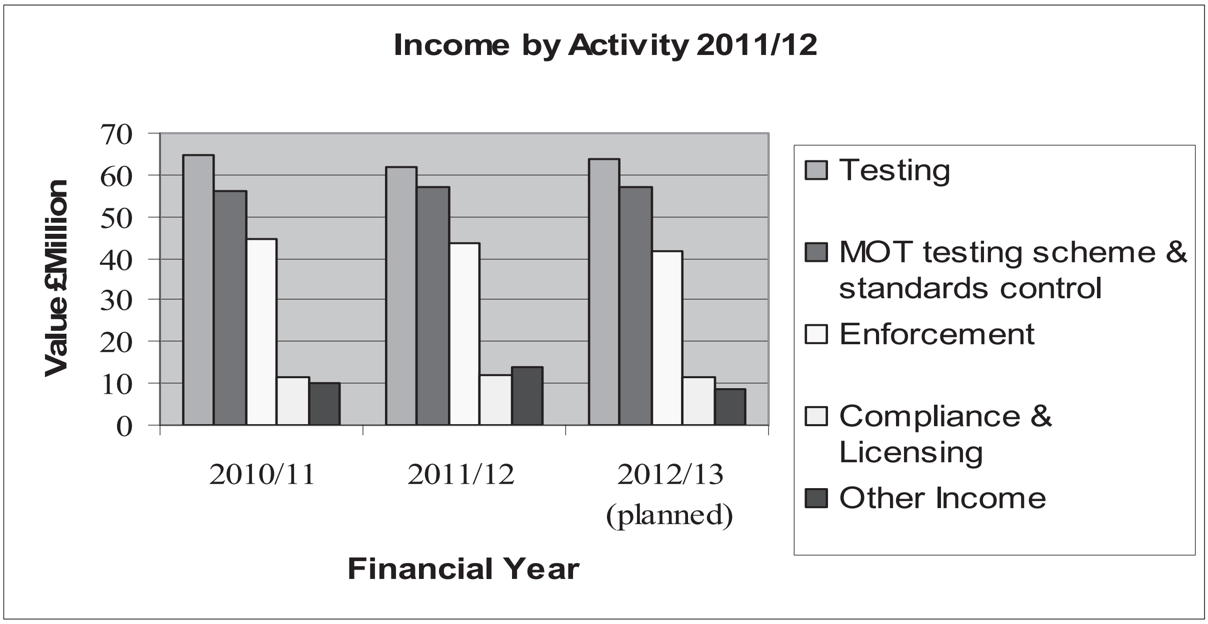
Income

Sources of income

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, vehicle fees and bus route registration fees;
- from MOT Authorised Examiners in the form of MOT slot fees; and
- from DfT and other Agencies in the form of direct funding of enforcement work. DfT also provides funding for specific major investment projects and has provided funding in-year for staff restructuring costs.





Income for the year was £188.6m (2010/11 £190.7m), £2.1m less than the previous year, primarily as a result of a decrease in volumes of vehicles tested during the year.

VOSA continues to monitor the impact of the economic downturn on volumes and as a result has adjusted planned income for 2012/13 accordingly.

Expenditure

We have continued to successfully control and reduce our expenditure during the year.

Operational staff costs, excluding early retirement costs, (note 3) decreased by 5.0% to £77.2m. (2010/11 £81.1m). As part of staff restructuring, savings were achieved through more efficient deployment of resources.

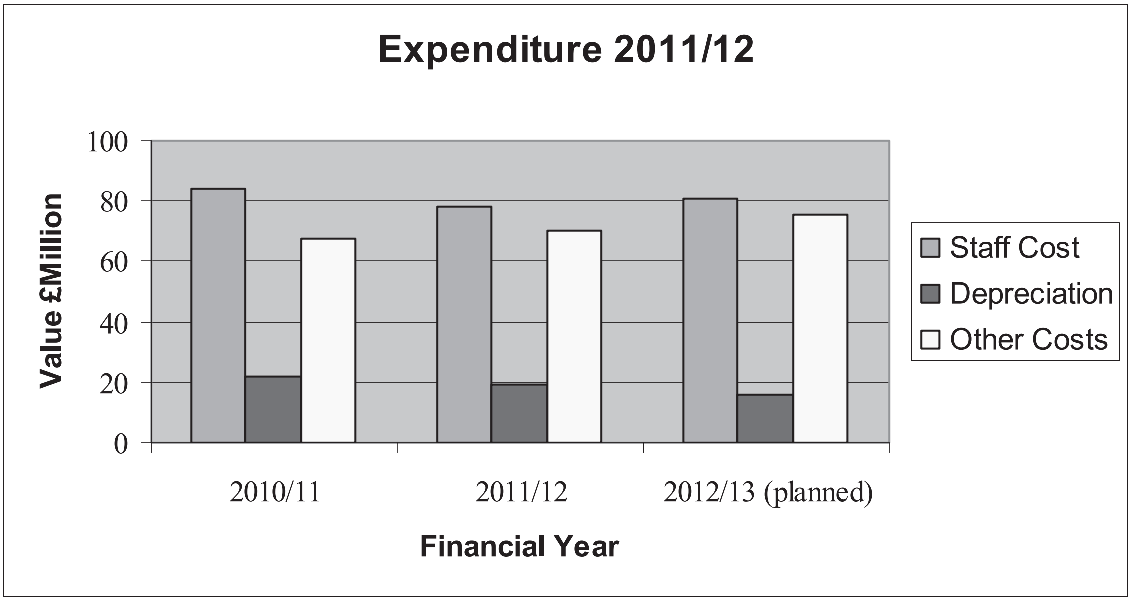
Staff restructuring costs of £0.8m were incurred during the year, of which the majority was funded by DfT. Total operational costs, before one-off restructuring costs and losses on disposal of assets, decreased by £3.2m (1.9%) to £165.7m (2010/11 £168.9m).

Other operating charges (note 4) increased in the year by £2.6m (3.9%) to £70.0m (2010/11 £67.4m).

Information technology costs were £15.0m in 2011/12 compared with £15.7m in 2010/11. The savings of £0.7m were achieved following successful contractual negotiations with our IT partners undertaken during the previous year. Reductions were achieved in other costs with significant savings in consultancy £0.1m (2010/11 £0.6m) and legal and banking £1.9m (2010/11 £2.4m) (note 4).

Costs incurred on rent increased by £2.3m in the year to £5.5m (2010/11 £3.2m) as a result of providing for future rent liabilities on properties where we have ceased testing vehicles and have relocated staff to alternative accommodation.

Through the control of expenditure detailed above we have exceeded the target efficiency saving figure of £1.2m set out on page 14 of the report.



Asset and liability management

During the year VOSA incurred capital expenditure of £2.5m (£1.2m 2010/11), of this £0.4m was funded by way of grant funding from the Department for Transport and £2.1m was funded from VOSA cash reserves. The majority of the expenditure was incurred on new 'power to stop' vehicles for enforcement activities in Scotland, replacement vehicles, and the continuing development of and planning costs for High Risk Traffic Initiative sites for which VOSA has been provided separate funding from the Department for Transport.

The level of trade & other receivables (note 9) decreased by £1.8m in the year from £10.0m in 2010/11 to £8.3m primarily due to a reduction in the level of VAT recoverable (£0.7m) and prepayments (£2.3m) whilst there was an increase in trade receivables of £1.2m from £4.5m (2010/11) to £5.7m.

Total current liabilities (note 10 and note 15) have increased by £1.0m in the year to £74.5m from £73.4m in 2010/11. This arose due to an increase in the balance of grant funding from DfT upheld against future costs (a net £7.5m increase made up of additional funding received of £10.4m and a release of funding against costs incurred of £2.9m), an increase in provisions (£0.7m) and an increase in fees received in advance (£1.3m). These increases were largely offset by a reduction in the level of loans repayable in the year of (£8.4m).

Non-current liabilities (note 10b) decreased by £5.7m in the year from £33.7m (2010/11) to £27.0m due a reduction in the level of fees received in advance.

Details of balances held in the Statement of Financial Position are contained in the notes to the Accounts (notes 2 through to 6).

Net funds (note 14)

Net Funds, being balances at the Government Banking Service less loans due within one year and after one year, stand at £(24.5)m compared with £(65.6)m in 2010/11 an improvement of £41.1m, demonstrating the cash being generated from our operating activities in line with the financial recovery plan. During the year we also made repayments on our loans of £19.2m.

VOSA manages liquidity risk within the framework of operating as a Trading Fund within DfT. All cash balances are held on account with the Government Banking Service.

Return on Capital (ROC)

In line with the financial recovery plan the average ROC over the period 1 April 2011 to 31 March 2012 was 19.1% reflecting the impact of the second full year of the financial recovery plan. The target average figure achievable over the period 1 April 2008 to 31 March 2013 is 3.5%. We currently forecast that this target will be exceeded as we deliver the future years of the financial recovery plan.

The average ROC over the period 1 April 2008 to 31 March 2012 was 3.9%. The basis of this calculation is set out in note 5 to the Accounts

Actual returns are made to the Department for Transport by way of interest payments on loans. The average actual return over the four year period 1 April 2008 to 31 March 2012 was 4.4%.

Forward Look

The table on the following page summarises our priorities for 2012/13

A. Peoples
Chief Executive and Accounting Officer
13 June 2012

2012/13 Performance Measures agreed with our Minister

DfT Vision		'a transport system that is an engine for economic growth, but one that is also greener and safer and improves quality of life in our communities'
	Reform	Take the total number of open ATFs to in excess of 200 by March 2013 Develop and manage 16 targeted sales plans for selected Goods Vehicle Test Stations Cease testing at a further 10 VOSA sites
	Financial	Deliver financial performance in line with the Business Plan
	Operational	The prohibition rate found at targeted checks of non-compliant HGV operators and drivers will be at least 12 percentage points higher than the rate found through random compliance checks
		Determine 85% of goods and PSV applications unopposed and not requiring a public inquiry within 9 weeks of the date of receipt of the application and the required fee
		Maintain Customer Service Excellence accreditation for Operator Licensing and the Customer Service Centre
		Maintain customer satisfaction at 90% through the development and delivery of a strategy by 31 March 2013
		Deliver our Business Plan within a staff complement of 2,332
		Reduce the average number of working days lost per FTE for sickness absence to 7.5 days
		Maintain customer take-up for operator self service transactions at 70% and Electronic First Time Pass Rate reports at an average of 60%
		Cut carbon emissions from Agency buildings and business use of vehicles by 15% at 31 March 2013, compared to a 2009/10 baseline
		Achieve payment of 80% of undisputed and settled invoices within 5 days
		Complete 93% of Freedom of Information requests within 20 working days
		Provide answers to 85% of Parliamentary Questions by due date
		Respond to 85% of MPs' correspondence within 7 working days
		Respond to 80% of official correspondence within 20 working days

Here is a flavour of some of our other priorities in 2012/13:

- Ensuring that PSVs are appropriately certified to meet the needs of the Olympics and Paralympics
- Contributing to DfT's Garage Customer Experience initiative to improve under-performing garages
- Publishing a 'compliance dashboard' as agreed with industry
- Reducing our estates footprint

These and many other commitments can be found in our published 2012/13 Business Plan on our website.

Sustainability Report

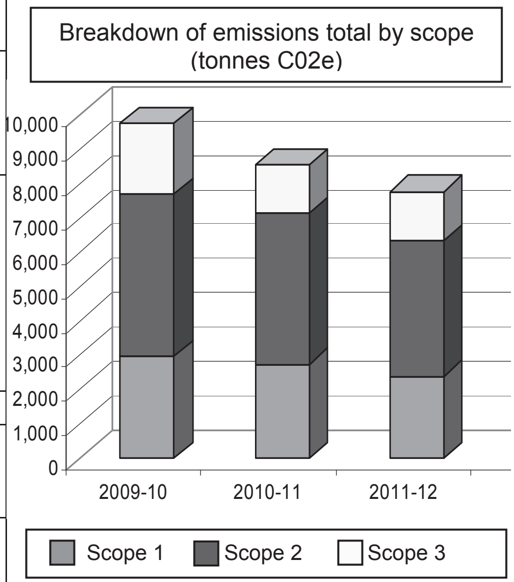
VOSA recognises that it has a significant role to play in delivering sustainable development. We are committed to continuous improvement in sustainability through:

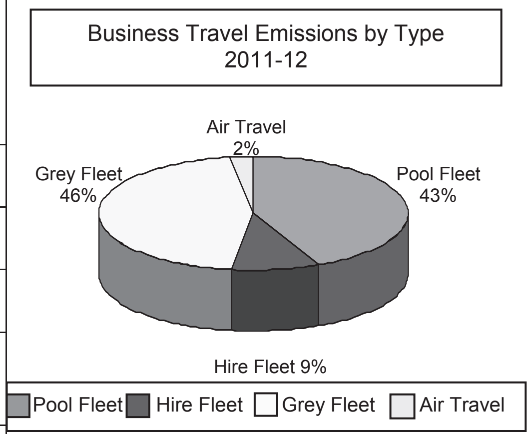
- Complying with all relevant sustainability legislation, regulation and other relevant best practice requirements;
- Assessing its activities to identify sustainability aspects and risks, and ensuring that the impacts are managed and minimised;
- Monitoring, reviewing and reporting performance and progress against the Greening Government Commitments; and
- Raising awareness of sustainability amongst VOSA employees through internal campaigns, performance information and publication of this policy.

We will measure sustainability business performance against agreed business targets. Effective implementation of a sustainable development strategy will only be achieved through successful communication, including:

- Ensuring that all staff and suppliers work in line with this policy;
- Communicating and educating to raise awareness and enhance competency, where appropriate; and
- Ensuring that this policy is available to all stakeholders.

Greenhouse Gas (GHG) Emissions		2009/10	2010/11	2011/12
Gross Emissions (tonnes CO_2e)	Scope 1: Direct (Gas, Gas Oil and Pool Fleet emissions)	2,956	2,726	**2,377**
	Scope 2: Indirect emissions (Electricity)	4,730	4,400	**3,962**
	Scope 3: Business Travel (Hire Fleet, Grey Fleet and air travel emissions)	2,064	1,433	**1,438**
	Total	9,750	8,559	7,777
Related Consumption Data	Gas Consumption (kWh)	6,327,307	6,129,071	**5,340,095**
	Oil Consumption (Litres)	140,680	135,397	**100,076**
	Pool Fleet (Miles)	4,143,055	4,293,310	**4,005,521**
	Electricity: Mains supply (kWh)	8,692,415	8,070,474	**7,552,080**
	Electricity: Self Generated Renewable (kWh)	25,444	12,715	**16,567**
	Hire Fleet (Miles)	1,199,346	601,144	**938,248**
	Grey Fleet (Miles)	4,336,261	3,407,775	**3,403,572**
	Air Travel kms	787,379	424,500	**357,080**
Financial Indicators	Total Energy Expenditure (£'000s)	£1,290	£1,064	**£1,251**
	CRC Related Expenditure (£)	n/a	n/a	**64,110**
	Expenditure on Business Travel – hire and fuel costs only (£'000s)	£3,177	£2,596	**£2,820**





DATA SOURCES AND ACCURACY

Scope 1 – Gas data covers approximately 80% of VOSA sites where a gas supply is present. Only sites where landlords do not invoice separately for this service are excluded. Approximately 92% of sites have Automatic Meter Readers (AMRs) and these, along with meter reads, provide our suppliers with accurate data.

Gas oil data is based on the amount of oil ordered in litres.

Pool fleet emissions cover the entire VOSA-owned fleet and data is collected from mileage sheets. 2009/10 data is calculated using conversion factors; following years use the CO_2 rating of each vehicle to calculate the emissions.

Scope 2 – This covers the electricity consumption of approximately 83% of VOSA sites, only sites where landlords do not invoice separately for this service are excluded. Meter reads and AMR data provide accurate data to our suppliers for invoicing which are used to provide the data.

Scope 3 – Hire mileage is provided by our contractor and uses the CO_2 rating of each vehicle. 2009/10 hire data is calculated using the average vehicle conversion factor published in 2009.

Grey fleet emissions are also calculated using this conversion factor. The system for recording grey fleet data has been updated for 2012/13 to improve the accuracy of the calculation, capturing data such as the fuel type and engine size of the vehicle.

Air travel emissions reported are only for those journeys recorded where a subsistence claim was placed. We currently are not able to record every flight taken.

Train and bus travel are excluded as we are currently not able to record the journeys. Air, train and bus travel will be reported on when VOSA moves to the Department-wide central travel booking system. A date for moving over to this system has not yet been set.

Expenditure on business travel also excludes these three modes of transport.

PERFORMANCE COMMENTARY AND TARGETS

VOSA is currently working towards the Greening Government Commitments and has set its own 5% annual reduction target in carbon emissions from its estate and business travel in order to meet the overall 25% reduction required by 2015 (from a 2009/10 baseline). VOSA is currently progressing very well against this target achieving a 20% reduction in the first two years of the target period. We intend to continue the progress we have made through continued estates rationalisation and the replacement of the heating system at our headquarters office in Bristol during 2012.

IMPROVEMENTS AND SUCCESSES

We recognise that our testing transformation programme which moves testing closer to the customer at third party sites will increase the number of road miles VOSA will travel. As part of mitigating this increase, VOSA has purchased 10 new pool vehicles which have a CO_2 output of 109g/km. These replaced 10 older vehicles on the fleet which had a CO_2 output of 138-140g/km. We also aim to reduce the number of miles travelled in grey fleet vehicles and transfer these miles to pool or hire vehicles which are more carbon efficient.

During 2011/12 we consolidated the VOSA office accommodation in Bristol and in Swansea.

Waste		2009/10	2010/11	2011/12
Non-Financial Indicators	Total Waste Arising (tonnes)	1,787	1,804	**1,797**
	Total Recycled Waste (tonnes)	185	185	**185**
	Total Waste Sent to Energy Recovery (tonnes)	14.76	29.52	**29.52**
	% of Waste Recycled	10	10	**10**
	Paper (no. of reams A4 equivalent)	27,134	n/a	**22,289**
Financial Indicators	Total Waste Expenditure £'000s	£98	£102	**£117**

DATA SOURCES AND ACCURACY

Data includes waste from VOSA's headquarters, offices and Goods Vehicle Test Station data. Data is presently unavailable for all other sites.

Data is calculated on the size of waste bins on site and the frequency of collections and is therefore

based on volume rather than the weight of waste collected. We recognise that this is not an ideal method but we are aiming to improve this by ensuring that new waste contracts include the weight data of each collection being made available. Not all recycling collections are recorded as many are collected in bags rather than in bins whose volumes can be calculated. Paper data is provided by our suppliers and is in reams ordered. This is a specific Greening Government Commitment for the year 2011/12. Data for 2010/11 is not applicable to this specific commitment. Waste costs provided are taken from numerous account codes. In order to improve the accuracy of data reported, a new specific waste account code is being set up for 2012/13.
PERFORMANCE COMMENTARY AND TARGETS
VOSA has achieved its target to reduce paper consumption in-year by 10% (against a 2009/10 baseline). This has been achieved through the introduction of more electronic transactions both in HR and finance systems. We will continue to increase the number of our electronic transactions next year. The new cleaning contract at our headquarters office has reduced the amount of plastic used by using concentrated cleaning chemicals rather than purchasing already diluted cleaning chemicals.

Water		2009/10	2010/11	2011/12
Non-Financial Indicators	Water Consumption m^3	27,657	24,954	**30,748**
	m^3 per FTE	11.6	11.2	**14.2**
Financial Indicators	Total Water Expenditure £'000s (including sewerage charges where appropriate)	£167	£260	**£204**

DATA SOURCES AND ACCURACY
Data reported for 2009/10 and 2011/12 include all sites where VOSA is responsible for paying for water consumption and only excludes sites where landlords do not invoice separately for this service. Data for 2010/11 only includes VOSA sites that were in scope for the previous SOGE targets. Data for all sites for that year are unavailable and explains the drop in consumption. Therefore only data from 2009/10 and 2011/12 are comparable in the number of sites they cover. Data is taken from invoices and regular meter reads are taken to ensure the data is as accurate as possible. Costs provided also include associated sewerage costs charged with water consumption. FTE figures only include VOSA staff based at that site and not visitors or the employees of other Agencies who share some of our sites. We currently have no means of recording this.
PERFORMANCE COMMENTARY AND TARGETS
VOSA has seen an increase in its water consumption since the start of the reporting period. Without being able to calculate the visitor numbers to our sites it is difficult to place the cause of this increase. However, we are aware of a water leak during 2011/12 which may account for a proportion of this increase. The leak has since been fixed.

Remuneration Report

Remuneration Policy

As set out in the Governance Statement on pages 36 to 54 of this report VOSA has the authority to determine the terms and conditions relating to the remuneration (excluding pensions) of its own staff below Senior Civil Service grades and the payment of allowances to all staff.

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

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

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

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

Further information about the work of the Review Body can be found at: www.ome.uk.com.

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the Directors of the Agency, which have been subject to audit. Benefits in kind were not received by any Directors during the year.

Directors	2011/12		2010/11	
	Salary £'000	Bonus £'000	Salary £'000	Bonus £'000
Mr Alastair Peoples Chief Executive	**105-110**	**5-10**	105-110	5-10
Mr Andrew White Director	**105-110**	**0-5**	105-110	0
Mr Alex Fiddes Director	**80-85**	**0-5**	80-85	0
Mr Paul Coombs Director and Deputy Chief Executive	**80-85**	**5-10**	80-85	0
Mr Paul Satoor Director (to 31 December 2011)	**60-65 (80-85 full year equivalent)**	**0-5**	80-85	0
Mrs Pia Wilkes Director (from 4 January 2011 to 5 January 2012)	**50-55 (70-75 full year equivalent)**	**0**	15-20 (70-75 full year equivalent)	0
Mrs Heather Cruickshank Acting Director (from 1 March 2012)	**5-10 (70-75 full year equivalent)**	**0**	n/a	n/a
*Mr Tony Bryant Acting Director (from January 2012)	**40-45 (170-175 full year equivalent)**	**0**	n/a	n/a
Mr Paul Smith Non-Executive Director	**15-20**	**n/a**	15-20	0
Mrs Jill Palmer Non-Executive Director	**20-25**	**n/a**	15-20	0
Mr Alex Jablonowski Non-Executive Director (to 31 December 2010)	**n/a**	**n/a**	20-25	0
Band of Highest Paid Director's Total Remuneration (£'000)	**110/115**		110/115	
Median Total Remuneration (£)	**26,599**		26,452	
Ratio	**4.2**		4.3	

* The total value of fees paid to a third party for the services of Mr Bryant to VOSA. Mr Bryant left VOSA on 20th April 2012

The banded remuneration of the highest paid Director in VOSA in the financial year 2011/12 was £110k-£115k (2010/11 £110k-£115k). This was 4.2 times (2010/11 4.3 times) the median remuneration of the workforce, which was £26,599 (2010/11 £26,452)

No employee received remuneration in excess of the highest paid Director in either 2011/12 or 2010/11.

Remuneration ranged from £14,695 to £110k-£115k (2010/11 £12,772 to £110k-£115k).

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

There was a reduction of 0.1 in the ratio of median remuneration and the highest paid Director in the year.

Salary

'Salary' includes gross salary, performance pay, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Agency and thus recorded in these Accounts.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The appraisal process within the Agency does not provide time to accrue for individual bonuses relating to 2011/12 performance in the 2011/12 financial statements. The bonuses reported in 2011/12 relate to performance in 2010/11 and the comparative bonuses reported for 2010/11 relate to performance in 2009/10.

Pension Benefits

Directors	Accrued pension at age 60 as at 31/3/12 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/12*	CETV at 31/3/11**	Real increase in CETV	Employee contributions and transfers in
			£'000			Nearest £100
Mr Alastair Peoples Chief Executive	40-45 plus 120-125 lump sum	0-2.5 plus 2.5-5 lump sum	855	807	(21)	1,400
Mr Andrew White Director	10-15 plus 0 lump sum	2.5-5 plus 0 lump sum	98	67	22	3,800
Mr Alex Fiddes Director	20-25 plus 70-75 lump sum	0-2.5 plus 2.5-5 lump sum	393	352	7	5,200
Mr Paul Coombs Director	0-5 plus 0 lump sum	0-2.5 plus 0 lump sum	51	31	14	2,800
Mr Paul Satoor Director (until 31 December 2011)	0-5 plus 0 lump sum	0-2.5 plus 0 lump sum	26	15	8	2,100

Mrs Pia Wilkes Director (until 5 January 2012)	5-10 plus 0 lump sum	0-2.5 plus 0 lump sum	94	73	15	1,900
Mrs Heather Cruickshank (from 1 March 2012)	20-25 plus 65-70 lump sum	0-2.5 plus 0-2.5 lump sum	388	385	2	100

* or at date of leaving as Director, if earlier

** or at date of appointment as Director, if later

The actuarial factors used in the calculation of Cash Equivalent Transfer Values (CETVs) were changed during 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2012. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website http://www.civilservice.gov.uk/pensions

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

A. Peoples
Chief Executive and Accounting Officer
13 June 2012

Statement of Accounting Officer's Responsibilities

Business Accounts

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed VOSA to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction as set out in Dear Accounting Officer letter [DAO (GEN) 05/11]. The Accounts are prepared under International Financial Reporting Standards (IFRS) on an accruals basis and must give a true and fair view of the state of affairs of VOSA as at 31 March 2012 and of the statement of comprehensive income, changes in taxpayers' equity, and cash flows for the financial year.

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

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

The Treasury has appointed the Chief Executive of VOSA as the Accounting Officer for VOSA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding VOSA's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Managing Public Money (The Stationery Office Limited).

Trust Statement

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed VOSA to prepare for each financial year a trust statement in the form and on the basis set out in the accounts direction in Dear Accounting Officer letter [DAO (GEN) 05/11]. The Accounts are prepared under International Financial Reporting Standards (IFRS) on an accruals basis and must give a true and fair view of the state of affairs as at 31 March 2012 relating to the collection and allocation of taxes, licence fees, fines and penalties for the year then ended, and of the statement of revenue, other income and expenditure and cash flows for the financial year.

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

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

The Treasury-appointed Accounting Officer for VOSA is responsible for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding VOSA's assets, as set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Managing Public Money (The Stationery Office Limited).

Governance Statement

Introduction

HM Treasury's 'Managing Public Money' (MPM) and 'Financial Reporting Manual' (FReM) require that I, as Accounting Officer, provide a statement on how I have discharged my responsibility to manage and control the resources for which I am responsible during the year.

HM Treasury introduced a new Corporate Governance Code for Central Government Departments in July 2011. The new code builds on the principles of the original code published in July 2005, focusing on the role of boards, since these provide leadership. I have provided details below of how the Vehicle & Operator Services Agency's system of Corporate Governance has operated during 2011/12, including any areas where the system has not operated in line with the Code.

Role of Accounting Officer

The Permanent Secretary of the Department for Transport (DfT) has appointed me as Chief Executive for the Vehicle & Operator Services Agency, and HM Treasury has appointed me as Accounting Officer for the Agency Trading Fund. In accordance with the responsibilities assigned to me in Corporate Governance in Central Government Departments and Managing Public Money, I have responsibility for maintaining a sound system of internal control that supports the achievement of VOSA's policies, aims and objectives, whilst safeguarding the public funds and Agency assets for which I am personally responsible (including my Agency Accounting Officer role for Traffic Commissioners and the Graduated Fixed Penalties and Deposits scheme).

As a Trading Fund VOSA should break even taking one year with another 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 or direct DfT funding. As a result of improved financial planning, the Agency now has a clear strategy - as agreed with DfT - for recovering a deficit that accumulated over a number of years following a period of investment in the estate. This year's outturn is the second year in a row that an in-year surplus has been produced. 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 over the period from 1 April 2008 to 31 March 2013.

The policy framework in which the Agency operates is set out in the Motoring Services (MS) governance handbook agreed by the Secretary of State for Transport.

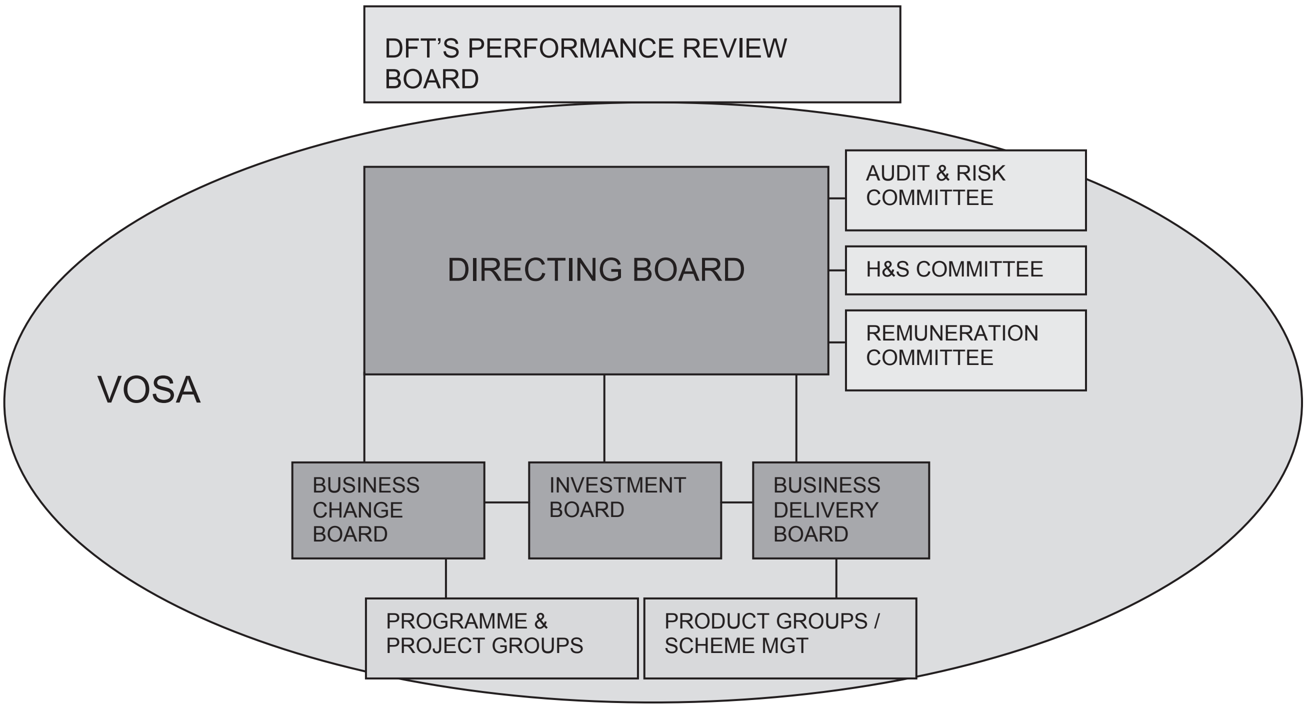
I seek the agreement of the Secretary of State to the annual key performance measures and fee levels for the Agency through the approval of VOSA's business plan. I submit performance reports to the DfT Management team (via the Performance Review Board) culminating in the Agency's Annual Report and Accounts.

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 Accounting Officer. Augmenting the assistance to me provided by the VOSA Directing Board and its sub-boards and committees (see below) is the advice and guidance I get from the DfT Management team, other Agencies and DfT partners on arising issues and risks as well as offering routes to escalate risk.

VOSA Governance

'Corporate Governance' is deemed to be the system by which an organisation is directed and controlled. I have ensured that the Agency's Corporate Governance arrangements are designed to comply with the Code of Good Practice on Corporate Governance in Central Government Departments.

The VOSA Trading Fund is managed by a formal **Directing Board**, which is supported by three sub-boards - a Business Change Board, Investment Board and Business Delivery Board and by three committees – Audit and Risk; Health and Safety; and a Remuneration Committee as depicted below:



VOSA Directing Board

The VOSA Directing Board (DB) meets each month and is responsible for providing leadership of the Agency by setting the vision and strategic direction. The Board considers plans, performance and the most important risks to successful delivery of those plans, and the Agency's stewardship of public assets. The composition of the DB and attendance through 2011/12 is set out below:

Executive Directors	Role	Period	DB Attended / DB Held
Mr Alastair Peoples*	Chief Executive	Full year	9/12
Mr Andrew White**	Chief Information Officer	Full year	12/12
Mr Alex Fiddes	Operations Director	Full year	12/12
Mr Paul Coombs	Finance, Estates and Performance Director and Deputy Chief Executive	Full year	11/12
Mr Paul Satoor	Human Resources Director	To December 2011	9/9
Mrs Pia Wilkes***	Strategy and Customer Director	To December 2011	9/9
Mr Tony Bryant	Acting Human Resources Director	From January 2012	3/3
Ms Heather Cruickshank***	Acting Director of Scheme Management and External Relations	From March 2012	1/1
Non-Executive Directors			**DB Attended / DB Held**
Mr Paul Smith			10/12
Mrs Jill Palmer			11/12

Executive Directors designated 'Champions' for Equality*, Health & Safety*, Information Risk (as Senior Information Risk Owner)** and Fraud and Bribery***.

Details of the Executive Team through the year are as follows:

Alastair Peoples – Chief Executive Officer

Alastair joined VOSA in 2004 as Operations Director, overseeing 2,000 frontline staff. He moved on to the role of Strategy & Performance Director and Deputy Chief Executive in April 2008. Alastair became Chief Executive of VOSA in August 2009, having acted as Interim Chief Executive from January 2009. He is now leading VOSA through a programme to transform its services to meets the needs of industry in the 21st century.

Andy White - Chief Information Officer

Andy joined the public sector after working in management consulting for 12 years. Consultancy engagements have been across private and public sector, but mainly focused on IT Strategy and large Business Transformation enabled by IT.

Alex Fiddes - Operations Director

Alex joined VOSA in 1992 after starting his career in the retail motor industry as an apprentice with Ford Motor Company. He was appointed Private Vehicles & Licensing Director in 2005 and took over the role of Operations Director in 2008.

Paul Coombs - Finance, Estates and Performance Director

Paul joined VOSA in July 2009. He also held posts as Director of Finance and Planning for the Audit Commission, Director of Operations and e-Transformation for Companies House, as well as various finance roles in local government. Paul is a qualified accountant (CIPFA).

Paul Satoor – Human Resources Director

Paul joined the Civil Service in the Land Registry before moving into a consultancy role in the private sector across a range of different HR and change projects. He worked as a consultant (for ATOS) before joining VOSA in January 2010.

Tony Bryant - Interim Human Resources Director

Tony joined VOSA as interim HR Director in January 2012. Prior to that he held a number of senior HR interim and permanent roles in both the private and public sector. This included organisations such as Hertfordshire CC, Vodafone, British Gas and the Identity and Passport Service.

Pia Wilkes – Strategy and Customer

Pia joined VOSA as the Strategy & Customer Director in January 2011 following Board roles in both VCA and DfT. Prior to working in the Civil Service Pia had a background in vehicle engineering in manufacture and consultancy companies.

Heather Cruickshank – Acting Scheme Management and External Relations Director

Heather joined the Civil Service in the Registers of Scotland, transferring to the Property Services Agency in London. She joined VOSA in 1990 and held a number of corporate and operations management roles. Heather took on the role of interim Director of Scheme Management and External Relations from March 2012.

The **Non-Executive Team** consists of 2 Non-Executive Directors and one other Non-Executive member who sits on the Audit & Risk Committee:

Paul Smith – Former finance director of the Ford Motor Company, and Non-Executive Director in public and other sectors;

Jill Palmer - Manager of Business Consultancy, HR, Legal and Customer Transformation Projects; and

Gareth Williams - Company Secretary of Eurostar International Ltd. Previously, 20 years' experience in the Civil Service.

Changes to Directing Board during the year

Mrs Pia Wilkes resigned from her role as Strategy and Customer Director on 5th January 2012.

Mr Paul Satoor resigned from his role as Human Resources Director on 31st December 2011.

Mr Tony Bryant was appointed as the Acting Human Resources Director from 3rd January 2012.

I took the opportunity of the departure of Mrs Wilkes and Mr Satoor to review the structure and responsibilities of the Directing Board and, with the agreement of DfT, defined the following posts:

– a **Director of Organisational Development** which will combine responsibilities for Strategy, Planning and Performance, Business Excellence, Human Resources, Programme

Management Office, Employee Engagement, Business Change and Internal Communications, and

- a **Director of Scheme Management and External Relations** which will be responsible for Scheme Management and Regulations, External Customer Relations and Communications and the Corporate Office (including Risk Management, Corporate Governance and Fraud & Bribery).

Mr Paul Satoor has been appointed as Director of Organisational Development and took up post in April 2012.

Mrs Heather Cruickshank took on the role as Acting Director of Scheme Management and External Relations from March. Mr Peter Hearn has since been appointed as Director of Scheme Management and External Relations.

During the year I appointed Mr Paul Coombs as my Deputy Chief Executive Officer.

Compliance with the Corporate Governance Code

We have complied with the Code where we consider the requirements and/or guidance are appropriate to the Agency. The Directing Board is chaired by an Executive Director, usually the Chief Executive, but in his absence by a Director nominated by the Chief Executive. Specifically on assessments of Board effectiveness, the number and structure of Boards was reviewed in-year as part of a review of the overall Agency governance structure. As a result, the Business Change Board was introduced part way through the year as a gateway to approve new ideas and progress development of our vision.

A review of the Business Delivery Board (BDB) was conducted early in 2011/12 to assess the effectiveness of the Board's function to monitor the performance and success of the organisation. As a result of the review, changes were made to the Board structure and membership. Following the introduction of the Business Change Board (BCB) further consideration was given to the relationship between the BDB and BCB, details included below.

VOSA Governance Structure

The Directing Board is supported in delivering its responsibilities through three Executive-led sub-boards which meet on a monthly basis. Each is chaired by an Executive Director to which the Non-Executive Directors have open invitations which have, on occasion, been taken up during the year. The sub-board details are set out below:

- The **Business Change Board (BCB)** is responsible for agreeing a timeline for development of proposals to deliver VOSA's strategy, commissioning the development and review of proposals to ensure strategic and dependency alignment as well as appropriate business capability and capacity.

The core membership of the BCB consists of two Executive Directors and the Head of Strategy. There is an open invitation for all Directors to attend. Other non-Director attendance is defined by the immediate area of focus within each agenda and relevant knowledge/skills within the business. The Board was chaired by Mrs Pia Wilkes until December 2011 and by Mr Paul Coombs from January 2012.

- The **VOSA Investment Board** approves the Agency's investment programme and comprises two Executive Directors and five Corporate Senior Leaders. The Board is chaired by Mr Alex Fiddes.
- The **Business Delivery Board** is responsible for the review of day-to-day management and performance of the Agency and comprises two Executive Directors and five Corporate Senior Leaders. The Board was chaired by Mr Paul Coombs until August 2011 and by Mr Andy White from September 2011.

The VOSA Directing Board has established three committees – the **Audit and Risk Committee**, the **Health and Safety Committee** and the **Remuneration Committee**.

The membership of the **Audit & Risk Committee** comprises two Non-Executive Directors and a third non-executive member. The Board is chaired by Mr Paul Smith. The Committee met six times in 2011/12.

I, as Chief Executive, the Director of Finance, Estates and Performance, the Director of Scheme Management & External Relations, the Head of Internal Audit and representatives from the DfT and National Audit Office attend meetings of the Audit & Risk Committee (A&RC) but have no vote.

The independent Chairman of the A&RC advises as appropriate on key risk and control issues. The Chair of the Agency's A&RC also sits on the DfT Audit Committee and meets with his fellow audit committee chairmen.

The A&RC is responsible for providing assurance to me as Accounting Officer that the Agency's system of internal control is operating effectively. It meets approximately every quarter and reviews the Agency's systems and processes for assessing and managing corporate risk, considering wider Departmental risk as appropriate.

The A&RC considers reports from the Agency's Internal Audit unit, and monitors progress with the internal audit programme, ensuring recommendations arising are implemented.

The VOSA Internal Audit unit operates to Government Internal Audit Standards and the working practices as described under the DfT Group Operating Model for Internal Audit functions. The unit's functions are established by me, as Accounting Officer, in association with the A&RC. 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. The Head of Internal Audit's Annual Report includes an audit opinion which concluded that a reasonable level of assurance could be taken from internal control, based on the programme of Internal Audit reviews undertaken during the year.

The strategy developed by the Board and myself, to improve internal control and address the financial deficit, continues to deliver improvements and reduce the number of audits with low assurance ratings, as well as improving management delivery of actions that address audit findings.

Corporate Governance, and risk management assurance reviews for this, delivered a substantial level of assurance showing VOSA continues to be effective and compliant with current HM Treasury requirements for these important elements of management.

In addition, the A&RC considers reports from: the Agency's Fraud and Bribery Manager and Champion; the Health and Safety Committee; the Information Assurance Manager; the Corporate Risk Manager; and other assurance processes operating across the Agency. The Committee's role was to ensure that recommendations relating to these assurance providers were implemented.

During 2011/12, the A&RC specifically reviewed or considered 30 Internal Audit Engagements. Of these 25 (83%) produced a Reasonable or Substantial audit opinion, 5 (17%) were given a Partial audit opinion, and none were given a None audit opinion. There were no individual findings in any of the audits which were required to be reported as significant.

The membership of the **Remuneration Committee** comprises the Chief Executive, two Non-Executive Directors and the Director of Human Resources (as Secretary). The Committee is chaired by a Non-Executive Director, Mrs Jill Palmer. The Committee met once in 2011/12.

This Committee provides support and advice on the annual pay remit, bonus schemes and Director Remuneration. VOSA has the authority to determine the terms and conditions relating to the remuneration (excluding pensions) of its own staff below Senior Civil Service grades and the payment of allowances to all staff.

VOSA has developed arrangements for the remuneration of its staff which are appropriate to business needs, are consistent with Government policies on the Civil Service and public sector pay and observe public spending controls. The reward system has been developed in conjunction with the arrangements for organisational change and reflects the following key principles:

- Value for money from the pay bill;
- Financial control of the pay bill;
- Flexibility in pay systems;
- A close and effective link between pay and performance; and
- Compliance with employment legislation.

In addition, VOSA seeks to follow overarching reward principles issued by the Cabinet Office.

The **Health & Safety Committee** was established in June 2008 in accordance with Health and Safety Executive guidance to champion and facilitate the effective development and management of the Health and Safety function. The Committee comprises two Executive Directors, one Non-Executive Director and the Health & Safety Manager. The Committee was chaired by Paul Satoor until December 2011 and by Tony Bryant from January 2012.

The Health and Safety Committee utilises information from the National Whitley Committees.

In particular the Committee:

- Ensures compliance with H&S legislation and regulations;
- Ensures H&S policy is reflected in Agency plans, priorities and targets;
- Ensures H&S implications of change are built into new and developed processes inclusive of contractor and partner involvement;
- Ensures H&S advice is competent and H&S training meets the needs of H&S Officers, H&S Coordinators, Agency managers and staff;
- Quality assures H&S Risk Assessments to establish that they are effectively completed;
- Reports to the Directing Board identifying actions and/ or advice required; and
- Reviews and approves the Annual Report for the Directing Board.

Department for Transport Governance of VOSA

The Department for Transport, as Sponsoring Department for VOSA, provides advice to me as Chief Executive on steering the Agency's activities to ensure they support the delivery of Departmental objectives and to ensure the Agency has the delegations and authority necessary for effective delivery and continuous improvement. This activity is provided through the **Performance Review Board.**

The following constituted VOSA's Performance Review Board during the year:

Mr Brian Etheridge*	Managing Director, Motoring Services Group
Mr Alastair Peoples	Chief Executive
Mr Paul Coombs	Director of Finance, Estates and Performance
Mr Leslie Gilbert	Finance Business Partner for Domestic, International and Corporate Groups, DfT

*Mr Etheridge replaced Mr Noel Shanahan in November 2011.

Executive Directors' other directorships

Mr Paul Coombs, my Director of Finance, Estates and Performance is a Non-Executive member of the Audit Committee of the Treasury Solicitor's Department. I undertake a Non-Executive Director role for the Armagh Observatory and Planetarium.

Conflicts of Interest

VOSA is required to disclose 'related third party transactions' in its Annual Accounts. To that end VOSA senior staff and certain others are required to complete a Third Party Interests Declaration Form, the results from which are recorded in the Register of Third Party Interests. There are no instances of a conflict of interest that I need to report.

The Governance Culture

The Agency recognises that the culture of the organisation can impact substantially on its success in terms of good governance. As Civil Servants, all staff of the Agency are bound by the Civil Service Code and adherence to the Nolan Principles of Public Life.

During the year the Directing Board led a review of VOSA's 'values'. The aim was to reinforce them and demonstrate how they contribute towards delivery of our core aim of making the roads safer.

VOSA's Values

In VOSA we aim to make the roads safer through:

- **Unity** - Trusting and supporting each other, we work as one team to make the roads safer. We sustain strong relationships based on tolerance and mutual cooperation;
- **Integrity** - We act consistently, with honesty and transparency. Everything we do must stand the test of public scrutiny;
- **Understanding** - We listen, we are considerate and show respect to colleagues, customers and the communities around us;
- **Excellence** - We strive to achieve the highest standards, confidently using our professional expertise in the work we do; and
- **Responsibility** - We accept responsibility and accountability for what we do. We take ownership for our actions and work together to achieve them.

These are not just a set of words. They form a contract within teams, Directorates and VOSA as a whole. We aim to demonstrate the values in our day to day work, to colleagues and customers. We need to feel safe to challenge if we feel our values are not being followed and we need to recognise and reward people where we do see these values in action.

Staff Engagement

A key element of the governance culture is the engagement of staff. VOSA is an equal opportunity employer (and I am the Champion for Equality within the organisation). Consequently, all staff, irrespective of their status, origin, sexual orientation, religion or beliefs, are treated equally and judged solely on the basis of their ability, qualifications and fitness for the work.

Staff engagement is actively encouraged within VOSA as part of the day-to-day process of line management, supplemented by the wide dissemination of information through computerised networks and other means, including an in-house electronic magazine entitled VOSAlink. Staff also have the opportunity of raising questions directly with me, as Chief Executive, using an "Ask Alastair" email address. Responses are provided to all staff through VOSAnet (our in-house intranet site). Formal and informal negotiations and consultations are conducted with trade unions, at both local level and National Whitley Committees.

We continue to implement and refine our Staff Engagement Strategy as a result of recent Staff Surveys. Action planning in response to the annual survey takes place at both a national and local level and progress against these plans is monitored on a quarterly basis through the VOSA Directing Board.

Training

One of management's main priorities is to invest positively in vocational training and individual personal development. A full programme of VOSA-specific training courses are run at VOSA's two principal training centres – Bristol Training Centre (Avonmouth) and the Chadderton Training Centre - and at other local venues. In addition, employees have access to generic skills training supplied by the Transport Learning Group and to a suite of e-learning products supplied by Civil Service Learning. Staff can also apply for funding to attend further education courses or Continuous Professional Development events; a panel meet twice a year to review applications and agree on levels of funding to be awarded.

Risk Management

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;
- evaluating the likelihood of those risks being realised and the impact should they be realised; and
- managing them efficiently, effectively and economically. The system accords with HM Treasury guidance.

The VOSA Directing Board has established and embedded a risk management system which is reviewed during the year by the Audit and Risk Committee. Risk management has been built into the Agency's planning systems and is embedded in all Board processes. Risk is an integral part of the Agency's quality processes within programme, project and operational services. The Agency fully recognises the principles for public risk management.

Corporate Risk

The VOSA Directing Board and senior managers lead risk management in their Directorates, supported by a team of risk management coordinators across programme and project boards as well as product groups.

A centre of excellence for risk management to identify and spread best practice functions was established within the **Strategy & Customer Directorate** and will continue within the **Scheme Management and External Relations Directorate** going forward**.**

Risk management guidance is available to all staff on the Agency's intranet site. It explains the Agency's underlying approach to risk management, documents the process and its roles and responsibilities, and identifies the main reporting and escalation routes. Staff on induction courses receive guidance on VOSA's risk management and governance processes, and additional risk management training is provided for senior mangers and members of staff who help coordinate the risk management framework.

Allied to this, an electronic drop box, called "2-Risky", is available to all staff to facilitate those who might wish to comment on or expose risk issues centrally and anonymously.

Risk management is also a key part of our project management process.

The Risk and Control Framework

The Agency's Key Business Risk Register is reviewed each month by the VOSA Directing Board. The Directing Board also conducts a regular 'spotlight' review on particular risks to ensure that the Agency responds to changes in risk profile or specific events in a positive and effective way. Both the likelihood and impact of a risk is considered when ascertaining the severity of each risk. The most significant risks facing the Agency currently are:

- the delivery of the Testing Transformation Programme

  Mitigating actions: Programme governance has been refreshed and embedded. Business case benefits have been reviewed and appropriate measures have been developed and agreed with DfT. Future assumptions on ceasing testing and station closures, and the opening of Authorised Testing Facilities (ATFs) will be regularly reviewed as we gather more live data as more tests are carried out at ATFs;

- the timely implementation of the ICT Modernisation Strategy

  Mitigating actions: The programme has been broken down into projects to gain pace and also to extend the scope to include transitioning legacy IT services into new contractual procedures aligned to the Government IT strategy to ensure the continuity of IT services if ICT modernisation is delayed; and

- access to efficient stopping locations.

  Mitigating actions: Working closely with DfT, Highways and the Association of Chief Police Officers to agree future locations subject to risk assessments being completed.

During 2011/12 five risks have been retired from our Key Business Risk Register.

Individual Executive Directors are designated as Risk Stewards for each of the corporate risks contained in the Key Business Risk Report. Stewards monitor and/or develop controls or risk treatment plans through specific groups led by Risk Owners. Risk Owners report progress via the monthly Key Business Risk Report, monthly Corporate Scorecard, and papers to the Directing and Business Delivery Boards.

The second tier of risk registers (Tier 2) is maintained by Directors and Senior Management. Registers are held for Directorates, product groups, programmes and projects. Work to ensure that all groups within this tier have robust risk management processes continues so that the Agency can effectively identify new or emerging risks and, where possible, agree and put in place risk treatment plans.

A Risk Scrutiny Panel of Corporate Senior Leaders is in place to conduct a review of the corporate risk register on behalf of the Directing Board. The panel reviews existing mitigating actions and risk scores, and considers new or emerging risks. The panel also reviews “bubbling” risks from Tier 2 risk registers.

Risk Appetite

The Agency Risk Appetite statement is as follows:

“The VOSA Directing Board endorses the VOSA Risk Management Policy and has a cautious attitude to risk, as defined by HM Treasury, with regard to corporate risk. That is to say that our preference is for safe options that have a low degree of inherent risk.

Directors are aware that, due to the nature of their duties, certain staff operate in a high risk environment. In these circumstances the Directors will seek to implement policy and procedures that reduce those operational risks as far as possible.

In addition, the VOSA Directing Board has a cautious attitude to risk in matters relating to financial propriety and information, and to health and safety it has an approach that will tolerate only a minimal level of risk.

The Directors will endeavour to manage risk in a manner appropriate to the business of the Agency.”

Internal Control

There are a number of internal control processes which provide a framework for managers and staff to deliver successfully and efficiently the Agency's objectives. The key internal control processes are as follows:

Business Planning - We have clear strategic direction, objectives and key performance measures in support of government policies through business and strategic planning.

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

- A mandatory Investment Control Framework which encompasses HM Treasury *Green Book* and DfT investment appraisal standards for all expenditure. This includes a process of testing whether a proposed project or expenditure offers value for money and considers strategic fit, affordability, prioritisation, risk, and benefit realisation. These arrangements dovetail with those of DfT for larger investments that require approval at DfT or Ministerial levels and also meet Cabinet Office Major Projects Authority requirements;
- The Investment Control Framework also addresses financial propriety and other requirements from HM Treasury's *Managing Public Money* and other requirements;
- An Oracle financial accounting system with embedded controls supplemented by an electronic Purchase to Pay system;
- Asset Management procedures to record and account for all assets; and
- An officer coordinates action on fraud-related matters, all of which are taken very seriously by the Agency and are fully investigated. All Fraud Reports are considered by the Agency's Audit and Risk Committee and regular updates are provided to them on anti-fraud measures and any investigations undertaken. During the year four cases of fraud were reported none of which were significant, although two members of staff have been dismissed. Further proceedings in relation to bribery potentially rest with South Wales Police.

Change Programme - The governance processes for the Change Programme are channelled through the VOSA Business Change Board, Investment Board, Business Delivery Board and the Directing Board, as well as the associated programme and project boards which provide enhanced coordinated focus on both strategic and operational change. Use of MSP (Managing Successful Programmes), PRINCE2 and OGC (Office of Government Commerce) standards is inbuilt, and monitoring of project development against these is an integral element of the Programme Management Office role. Change risks are monitored and coordinated by the Programme Management Office which feed the monthly evaluation by the Risk Scrutiny Panel. Change risk management assurance continues to be supported by the individual risk management of programmes and projects, and by the Business Delivery Board which performs a monthly review of programme and project dashboards highlighting top risks and issues.

Programme & Project Management – Prior to commitment by the VOSA Investment Board (IB) or Directing Board (where total lifecycle costs are above IB delegated limits), each programme/project is subject to Business Case approval, including evaluation of benefits delivery, potential business impact, availability of resource, and value for money. Changes to the above and risk/issue identification are functions of these Boards and their programme and project boards. Control systems, which are overseen and undertaken with the assistance of our internal Programme Management Office, include:

- A Project Control Framework to which each programme/project must adhere, that specifies the detailed governance processes and procedures to be followed to ensure they deliver the required outputs of each project phase on time and to budget. The framework also defines the project lifecycle, roles and responsibilities and project deliverables (including benefits); and
- Use of the Health Checks, Gateway Reviews and internal governance reviews to provide project assurance. Competent programme and project management ensure that issues are not overlooked, time and money is not wasted, and resources are effectively deployed.

Procurement and Contract Management – During the year a new policy on the letting of all local supply arrangements has been implemented which will continue to be rolled out during the next year. Officers, other than those of the Procurement Unit, will no longer be permitted to negotiate contracts with suppliers. Any such new local requirement will have to be routed via the e-procurement system in the form of a Requisition. The Procurement Unit will determine the appropriate procurement activity to meet the local need. This policy initiative has been taken to control the addition of suppliers to VOSA's master vendor file, to avoid duplication of sourcing for common services and to enable the Procurement Unit to seek opportunities for better, pan-Government deals.

Shared Services Arrangements – DfT's Shared Services Centre was established to provide Financial, Payroll and HR transactional support functions to DfT and its constituent parts, including Agencies and Arm's Length Bodies. The Department has commenced a process to divest the Shared Service Centre during 2012/13. VOSA is not currently provided with the full services of the Shared Services Centre but is working with the DfT Shared Service Futures team to ensure appropriate governance, control and assurance processes are built into the service specification and the contractual arrangements, and that the Agency's processes are aligned to the post divestment model.

Succession planning - HR Business Partners work with Directors to review the development needs of their Leadership teams and identify those with the potential for further development and growth to more senior roles. It is recognised that there needs to be at Board level a balance between those who have grown within VOSA and those who can bring fresh ideas and different perspectives from outside.

While continuing to work within Civil Service restrictions on recruitment and promotion, we are proactively growing skills and competencies within the Agency. We plan to implement a talent management strategy which will include identifying business critical roles and existing shortfalls in skills. The strategy will provide a framework and guidance to enable managers to work with staff to ascertain their career aspirations and potential.

We have plans to develop a systematic approach to supporting Continuous Professional Development of our staff including growing the skills that align to our longer term plan, to be implemented across the business.

Compliance with Legal Obligations, Standards & Requirements - Our people, partners and procedures comply with relevant legal obligations, government, departmental and technical standards and requirements. The Agency's arrangements include:

- Technical governance procedures to ensure that the Agency conducts its business in accordance with the appropriate technical standards;
- Compliance with European Union legislation and standards where appropriate regarding several areas including procurement and health and safety; and
- ISO accreditation for two "schemes" of activity – Individual Vehicle Approval and Vehicle Recalls – expanding into other testing and enforcement processes.

Other Explicit Reviews/Assurance Mechanisms

Executive Directors' Assurance

Twice a year, Executive Directors provide **Stewardship Reports** that take account of assurances from Corporate Senior Leaders and others who report on the full range of delegations, policies and procedures laid down by the Agency. The output from this exercise is included in this Statement where appropriate. Directors report on:

- Compliance within their directorates;
- The adequacy of the arrangements within their directorate;
- What remedial action is being taken where assurance cannot be provided; and
- Areas where Directors have a corporate responsibility.

The Agency has benefited this year from the application of more stringent evidence requirements, the review of directorate responses by relevant internal process owners, and the implementation of action plans to address deficiencies in compliance.

Stewardship Reports - Results from end of year management assurance assessment

Areas of Control with a:		
		Partial assessment
19 76%	5 20%	1 4%

There have been no material changes between the mid year and end of year scoring. There is steady progress in a number of areas – Purchase to Pay, Investment Appraisal, Business Change Management and succession planning but not sufficient to alter the overall assessments.

Non-Executive Directors' statement of assurance:

"We have no significant governance issues that we believe need to be highlighted in the governance statement. The Agency NEDs chair the Audit & Risk Committee and the Remuneration Committee and participate in the other key committees and sub-boards (Health and Safety, Investment, Business Delivery and Business Change), as well as Board strategy days , and Directors' mid and full year reviews. As a result, we have a broad and transparent view of how the Agency is operating.

More specifically, the Audit and Risk Committee has oversight of the internal audit programme and the risk management process, and subsequent management implementation of audit recommendations and can confirm that management are engaged in this process and that actions largely happen on time. The Committee also provides an independent challenge to the six-monthly management assurance returns to DfT centre, and the supporting stewardship statements provided by individual Directors, and are satisfied that the management assurances are appropriate.

On other issues, there has been some progress made on the relationship with Traffic Commissioners and the framework agreement was signed during 2011/12. Looking forward, we are concerned about the major IT renewal required and whether the complexities of evolving central government approval routines will hinder the achievement of best value for money in this programme. Finally, the management consistently flag succession planning as an issue, primarily due to the process for hiring approvals imposed on the Agency; as a result, the filling of key vacancies is often delayed and VOSA is increasingly unable to recruit up to the levels required to deliver its future operating commitments."

Managing the Risk of Financial Loss

In October 2010, following a cross-Government Financial Systems Risk Review, the Treasury introduced new guidance and tools to support a review of organisations/processes which have an associated risk of financial loss. A 'financial loss' in the context of this work is defined as a loss of monetary assets in relation to deliberate or accidental errors during the processing of financial transactions. In line with other Government Departments, the Agency completed a review of all relevant processes by 31 March 2012 to ensure that risk controls have been assessed.

As a result it was concluded that:

- there is a clear strategy for managing risk of financial loss, supported by joined up leadership across the organisation;
- accountabilities are clear, delivered end to end and clearly communicated;
- some capabilities are defined for managing risk of financial loss and individuals are trained in local teams; and
- risks of financial loss are assessed for all funds flows and results challenged.

Data Handling, Security and Information Risk

VOSA's data and information handling procedures must comply with all relevant statutory and regulatory requirements. This includes, amongst others, the Data Protection Act, Freedom of Information Act, Environmental Information Regulations, Road Traffic Act, Computer Misuse Act and Protection of Intellectual Property Rights.

VOSA processes data on behalf of the Secretary of State for the Department for Transport. The data owner, under the Data Protection Act, is the Secretary of State. The public authority, under the Freedom of Information Act, is the Department for Transport.

At all times, VOSA will seek compliance with the requirements set out in HMG Information Assurance (IA) Standards 1 to 7 and HMG Security Policy Framework, together with Good Practice Guides published periodically by the Central Electronics Security Group (CESG) and this Policy endorses that aim.

The Senior Information Risk Owner (SIRO), an Executive Director, acts as the focus for information risks and also supports me as Accounting Officer (AO) in compiling this Statement. The Audit and Risk Committee used to take Information Assurance updates at every meeting but this year received sufficient confidence to reduce to a twice a year report from the Information Security manager.

VOSA has reported minor lapses in data security to the appropriate channels during the year. These breaches have been managed within VOSA reporting, risk management, process improvement and disciplinary processes. There have been no significant breaches which would require VOSA to report to the Information Commissioner's Office.

Information Assets

I and my Agency realise that assets containing information need to be handled lawfully, accurately and securely. As Accounting Officer I have ensured that the Agency has complied with its statutory obligations. I have received comprehensive and reliable assurance from managers, Internal Audit and my Chief Information Officer, in his role as Senior Information Risk Owner, that the information risks are being managed effectively and that improved measures have been put in place during the year to ensure greater visibility of the Information Asset Owner role. There have been no incidents regarding information security which had to be notified to the Information Commissioner.

Disaster Recovery and Business Continuity

VOSA has made business continuity management a priority within the business. Work is ongoing to maintain and improve our business continuity programme and to ensure that it is communicated across the UK sites.

VOSA's approach to business continuity is one where we do not focus on dealing just with disasters, but with all levels of incident or disruption. Our business continuity program allows the business to continue to operate during incidents or disruptions. These may range from external threats such as a terrorist attack, a natural disaster, or a pandemic, through to localised and more common incidents such as loss of critical IT applications or specific skill sets within a department. VOSA and its key IT partner (ATOS) have agreed a prioritised Disaster Recovery plan.

The VOSA business continuity programme has the following key elements:

- A governance structure establishing authorities, roles and responsibilities for the programme;
- An impact analysis to identify and prioritise business units' critical services and assets;
- Plans, measures and arrangements to ensure continued availability of critical processes;
- Integration with Technology Services for the recovery of IT assets; and
- Activities to monitor the business unit's level of overall readiness such as exercising, maintenance and awareness.

The programme focuses on three complementary features:

- Risk reduction - through the management of risks to prevent an incident and/or disaster. This is done by identifying and assessing the business risks which could result in an incident and/or disaster;
- Incident Management Plans. This is achieved through management of the incident when it occurs to prevent it from developing into a disaster, and to lessen its impact. VOSA has established incident management plans for all headquarter sites and smaller operational sites around the UK. These are tested using real life incidents and scheduled incident management exercises; and
- Business Continuity Plans. Each department has a plan that enables the fast and efficient resumption of essential business operations by directing the continuity actions of specific critical staff. VOSA has established business continuity plans for all headquarter sites and

operational sites around the UK and is currently improving its overall business continuity stance in line with DfT policy.

Auditors

VOSA's Accounts are audited by the Comptroller & Auditor General and his certificate and report to the Houses of Parliament is presented in the Annual Accounts at page 55. The financial statements are audited in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board, and in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973 and DAO (GEN) 05/11.

Audit fees charged in the Accounts amount to £78,300 which includes the audit of the Trust Fund statement in Annex B.

I have taken all necessary steps to make myself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information. In so far as I am aware, there is no relevant audit information of which the Agency's auditors are unaware.

Alastair Peoples
Chief Executive and Accounting Officer
13 June 2012

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

I certify that I have audited the financial statements of the Vehicle and Operator Services Agency for the year ended 31 March 2012 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Vehicle and Operator Services Agency as at 31 March 2012 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Directors' Report and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
21 June 2012

Annual Accounts

Statement of Comprehensive Income for the year ended 31 March 2012

	Notes	2011/12 £'000s	2011/12 £'000s	Restated* 2010/11 £'000s	Restated* 2010/11 £'000s
Income from operations					
Income from statutory activities	2	**174,788**		177,053	
Income from other operating activities	2	**13,782**		13,611	
Total income from operations			**188,570**		190,664
Expenditure from operations					
Staff Costs	3	**(78,065)**		(84,422)	
Other operating charges	4	**(69,962)**		(67,350)	
Depreciation/Amortisation/ Impairment/Surplus/(deficit) on disposal	6/7	**(19,197)**		(21,728)	
Total expenditure from operations			**(167,224)**		(173,500)
Net operating surplus			**21,346**		17,164
Finance Income	5a	**106**		113	
Finance Costs	5b	**(4,739)**		(5,947)	
Net finance costs			**(4,633)**		(5,834)
Surplus for the year			**16,713**		11,330
Dividend payable	5c		**0**		0
Retained surplus for the year			**16,713**		11,330
Other Comprehensive Income					
Net (deficit) on revaluation of property, plant and equipment			**(268)**		(3,614)
Other comprehensive income for the year			**(268)**		(3,614)
Total comprehensive income for the year			**16,445**		7,716

* These have been restated as described in note 26

Statement of Financial Position as at 31 March 2012

	Notes	31 March 2012 £'000s	Restated* 31 March 2011 £'000s	Restated* 1 April 2010 £'000s
Non-current assets				
Property, plant and equipment	6	**107,037**	116,320	127,452
Intangible assets	7	**25,396**	35,069	48,153
Trade and other receivables due after more than one year	9b	**10,500**	10,752	13,148
Total non-current assets		**142,933**	162,141	188,753
Current assets				
Trade & Other Receivables	9a	**8,269**	10,089	18,770
Assets held for resale	8	**0**	0	0
Cash & Cash Equivalents	12	**51,634**	33,018	68,636
Total current assets		**59,903**	43,107	87,406
Total assets		**202,836**	205,248	276,159
Current liabilities				
Trade and other payables	10a	**(70,964)**	(70,700)	(119,642)
Provision for liabilities and charges	15	**(3,518)**	(2,740)	(2,215)
Total current liabilities		**(74,482)**	(73,440)	(121,857)
Total assets less current liabilities		**128,354**	131,808	154,302
Non-current liabilities				
Trade and other payables due after more than one year	10b	**(27,036)**	(33,695)	(39,590)
Provision for liabilities and charges	15	**(6,438)**	(5,591)	(5,455)
Total non-current liabilities		**(33,474)**	(39,286)	(45,045)
Net Assets		**94,880**	**92,522**	**109,257**
Taxpayers' Equity				
Public Dividend Capital	16	**28,983**	28,983	28,983
Loans from the Secretary of State	18	**62,015**	76,102	100,553
Revaluation Reserve		**20,834**	22,736	26,350
General Fund		**(16,952)**	(35,299)	(46,629)
		94,880	**92,522**	**109,257**

*These have been restated as described in note 26.

A Peoples
Chief Executive and Accounting Officer
13 June 2012

Statement of cash flows for the year ended 31 March 2012

	Notes	2011/12 £'000s	Restated* 2010/11 £'000s
Cash Flows from operating activities			
Retained surplus for the year		**16,713**	11,330
Adjustments for:			
Loss on disposal/Depreciation/ Amortisation/Impairment	6/7	**19,197**	21,728
Net financing costs		**4,633**	5,834
Decrease/(Increase) in trade & other receivables	9	**2,072**	11,077
(Decrease)/Increase in trade payables	10	**6,944**	(49,629)
Write-off of Loan from Secretary of State		**(3,280)**	0
(Use)/Creation of provisions		**1,625**	661
Net cash (outflow)/inflow from operating activities		**47,904**	1,001
Cash Flows from investing activities			
Purchase of property, plant and equipment	6	**(868)**	(1,219)
Purchase of intangible assets	7	**(990)**	(266)
Proceeds from disposal of property, plant and equipment		**2,041**	92
Finance income	5	**106**	113
Net cash (outflow)/inflow from investing activities		**289**	(1,280)
Net cash flows from financing activities			
Loans received from the Secretary of State		**0**	0
Repayment of loans from the Secretary of State		**(19,192)**	(24,017)
Repayment of capital under PFI contract		**(5,646)**	(5,375)
Finance costs	5	**(4,739)**	(5,947)
Net cash (outflow)/inflow from financing activities		**(29,577)**	(35,339)
Net (decrease)/increase in cash and cash equivalents		**18,616**	(35,618)
Cash and cash equivalents at 1 April 2011		**33,018**	68,636
Cash and cash equivalents at 31 March 2012		**51,634**	33,018

*These have been restated as described in note 26.

Reconciliation of net cash flow to movement in net funds (note 14)

	2011/12 £'000s		2010/11 £'000s	
(Decrease)/Increase in cash in the period		**18,616**		(35,618)
New loans from Secretary of State	**0**		0	
Repayment of loan from Secretary of State	**19,192**		24,017	
Write-off loan from Secretary of State	**3,280**		0	
		22,472		24,017
Change in net funds		**41,088**		(11,601)
Net funds at 1 April		**(65,556)**		(53,955)
Net funds at 31 March		**(24,468)**		(65,556)

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

	General Fund £'000	Loans from the Secretary of State £'000	Revaluation Reserve £'000	Public Dividend Capital £'000	Total £'000
Balance at 31 March 2011 as restated	(35,299)	76,102	22,736	28,983	**92,522**
Surplus for the year	16,713	0	0	0	**16,713**
Transfer of long term loans to current liabilities	0	(14,087)	0	0	**(14,087)**
Other Comprehensive Income					
Net movement on revaluation of property, plant and equipment	1,634	0	(1,902)	0	**(268)**
Total Comprehensive Income	1,634	0	(1,902)	0	**(268)**
Total Comprehensive Income for the year 2011/12	18,347	(14,087)	(1,902)	0	**2,358**
Balance at 31 March 2012	(16,952)	62,015	20,834	28,983	**94,880**

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	General Fund £'000	Loans from the Secretary of State £'000	Restated Revaluation Reserve £'000	Public Dividend Capital £'000	Total £'000
Balance at 1 April 2010 as originally stated	(36,808)	100,553	16,529	28,983	**109,257**
Prior Year Adjustment*	(9,821)	0	9,821	0	**0**
Revised balance at 1 April 2010	(46,629)	100,553	26,350	28,983	**109,257**
Surplus for the year	11,330	0	0	0	**11,330**
Transfer of long term loans to current liabilities	0	(24,451)	0	0	**(24,451)**
Other Comprehensive Income					
Net movement on revaluation of property, plant and equipment	0	0	(3,614)	0	**(3,614)**
Total Comprehensive Income	0	0	(3,614)	0	**(3,614)**
Total Comprehensive Income for 2010/11 report	11,330	(24,451)	(3,614)	0	**(16,735)**
Balance at 31 March 2011	(35,299)	76,102	22,736	28,983	**92,522**

* This adjustment reflects the identification that properties with negative values were held in the revaluation reserve and have been charged to the General Fund in-line with IFRS and FReM as described in note 26.

The notes on pages 62 to 93 form part of these Accounts

Notes to the Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2011/12 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

The Agency has chosen not to adopt early any new standards or interpretations.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2012 and have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may be adopted in subsequent periods:

- IAS 1 Presentation of financial statements (Other Comprehensive Income), will require the grouping of items on the basis of whether they might be reclassified from OCI to surplus or not. This will make it clearer to users what their potential impact on surplus or deficit will be in future periods, and where there will be no impact. Application of this amendment is required for reporting periods beginning on or after 1 January 2013, though inclusion in the FReM is subject to consultation;
- IFRS 7 Financial Instruments: Disclosure, requires increased disclosure for transfers of financial assets. Application of this amendment is required for reporting periods beginning on or after 1 July 2011, and the FReM will incorporate these increased disclosures;
- IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after 1 January 2015. Initial application of IFRS 9 is expected to have a limited impact;
- IFRS 10 and 11 cover the definition of and accounting treatment required for subsidiaries and jointly controlled operations. Within government, consolidation boundaries are determined by HM Treasury based upon Office of National Statistics sector classification. These classifications do not recognise the concept of an operation controlled jointly across different sectors. It is therefore unclear what impact this will have;

- IFRS 12 covers disclosures of interests in other entities. This standard will have no impact; and
- IFRS 13 sets out the framework for measuring fair value. It is considered unlikely that IFRS 13 will have a material impact.

Other amendments to the FReM due to come into effect after 2012/13 are considered to have no impact on VOSA.

a) Basis of preparation

The Accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible 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 2006, and the accounting standards issued or adopted by the International Accounting Standards Board, in so far as those requirements are appropriate.

b) Non-current assets

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

VOSA categorises its property assets within two specific groups for valuation purposes.
Much of the VOSA estate comprises specialist use assets. When such assets are refurbished it is likely that the valuation of that property will not represent the value in use or its future benefit to VOSA. Enforcement sites located near to major trunk roads in the UK are also classified as specialist assets and are valued on a Depreciated Replacement Cost basis.

Other properties which have not been modernised (to the extent that they become specialised) include testing, licensing and regional office properties which are valued on a fair value basis.

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the Agency in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the Agency to provide testing facilities.

Operational heritage assets are normally valued in the same way as other assets of that general type (buildings, for example). However the valuation of the non-operational heritage assets is not practicable or appropriate due to the costs associated with obtaining reliable valuations being onerous when compared with the additional benefits obtained by users of the financial statements.

Valuations are described in notes 6 and 7. Surpluses on revaluation are taken to the revaluation reserve, or where a previous diminution in value was charged to the Statement of Comprehensive Income the surplus is released to the Statement of Comprehensive Income to the value of the previous diminution. Any further surplus is taken to the revaluation reserve. Diminutions in value are initially charged against previous revaluation surpluses on such assets with any remaining diminution in value being charged directly to the Statement of Comprehensive Income.

Title to the freehold land and buildings is held by DfT, 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.

Title to most enforcement sites is held by the Highways Agency but, in agreement with the Highways Agency, these assets are accounted for in the VOSA Accounts on the basis that VOSA gains benefits from utilising these assets in our normal enforcement activities.

Capitalised expenditure on specialist software is valued at depreciated cost reflecting its specialist nature. All other assets – plant and equipment, vehicles, etc. are revalued annually using indices published by the Office for National Statistics.

Profit or loss on disposal of all categories of non-current assets is calculated on the revalued amount.

The minimum level for capitalisation as a non-current asset is £1,000.

Assets purchased in the year but which are still in the course of construction at year-end are classified accordingly at year-end.

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 buildings	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.

Freehold land is not depreciated.

- 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 and equipment	5-10 years
Vehicles	2-8 years
Telephony equipment	over the life of the lease
Computer hardware	3 years
Intangibles (computer software and software licences)	2-10 years

Assets in the course of construction are not depreciated until brought into use.

d) Leasing

A lease is an agreement whereby the lessor conveys the right to use an asset for an agreed period in return for payments. At their inception, leases are classified as operating or finance leases. If a lease conveys substantially all the risks and rewards of ownership to the lessee (such as transfer of title, the lease term covering the major part of the asset's life, or the lease payments are substantially all of the fair value of the leased asset), it is classified as a finance lease. Otherwise, is it classified as an operating lease. Where a lease covers the right to use both land and buildings, the risks and rewards of the land and buildings are considered separately. Land is assumed to be held under an operating lease unless the title transfers to VOSA at the end of the lease. The assessment is made at the inception of the lease, except in the case of leases pre-existing the transition to IFRS, when the assessment is made at that date. Assets held under finance leases are capitalised at the fair value of the asset at the start of the lease, with an equivalent liability categorised as appropriate under liabilities due within and after more than one year.

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

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

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

VOSA obtained approval for computerisation of the MOT process in 2000. Following competitive tender, the contract was awarded to Siemens Business Services (SBS) with the system going live in April 2005. The contract for the provision of a computerised service for MOT testing and administration is for a term of 10 years and 8 months and ends in September 2015. ATOS Origin acquired SBS in July 2011.

The terms of the contract are that the contractor is required to develop, construct and maintain a computerised MOT system over the course of the contract. VOSA controls, through the provisions of the contract, the assets the Contractor is required to supply and the levels of service.

Over the course of the contract, the Contractor is required to maintain the developed software and condition of the hardware and provide core services.

There is a finance lease embedded within the contract for the provision of computer hardware and MOT software. VOSA accounts for the liability as a finance lease. Previously, the MOT system had been classified as a financial asset, but after further review this year it has been reclassified as an intangible asset since the software and computer terminals are inseparable in practice. The costs that relate to the delivery of the MOT scheme are charged to the statement of comprehensive income on an accruals basis. (see notes 7, 20 & 21)

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.

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.

Development costs in respect of capital projects are capitalised within non-current assets as assets in course of construction to the extent that future economic benefits are expected to flow from these assets.

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. VOSA is unable to identify its share of the underlying assets and liabilities. The scheme actuary undertook a revaluation of the scheme as at 31 March 2011. 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 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 Civil Service Compensation Scheme. 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 retirement in respect of each employee has been charged to the Statement of Comprehensive Income in the year in which the employee took early retirement and a provision for the future pension payments has been created. Funds are released from that provision annually to fund pension and related benefits payments to the retired employee until normal retirement age.

g) Value Added Tax

VOSA is not separately registered for Value Added Tax (VAT). VAT is accounted for centrally by 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 non-current 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 5 year licence. All tests which have yet to be performed and licences with remaining terms left on the licence at the statement of financial position date are shown as liabilities. Income for the capability to test vehicles on the MOT computerised system is recognised when testing "slots" are purchased.

i) Central funding

In accordance with conditions placed on funding received from Central Government budgets or other Departmental sources funds are released to the Statement of Comprehensive Income in-year against expenditure incurred, or in the case of capitalised assets, amortised over the useful economic life of the asset. Financing received from Central Government budgets to support restructuring costs was in previous years credited to the General Fund in the financial year it was received. After further consideration this treatment has been amended this year with such funding being credited to the Statement of Comprehensive Income, within other income, to match the costs incurred. Prior year figures have been restated.

Central funding in the form of loans from the Secretary of State have also been provided to VOSA to support the investment in major estate, equipment and IT developments which could not be funded from VOSA's own resources. In accordance with HM Treasury direction balances of such loans that are repayable within one year are held within current liabilities and balances that are repayable after one year are included within Taxpayers Equity.

j) Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the statement of financial position 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 result.

k) Critical accounting judgements and estimates

The Agency is required to exercise significant judgement and make use of estimates and assumptions in the application of these accounting policies. Areas which the Agency believes require the most critical accounting judgements are:

- Provision for liabilities and charges

Provisions are recognised in the financial statements at the net present value of the estimated future expenditure required to settle such obligations. A discount is applied to recognise the time value of money and is unwound over the life of the provision.

- Impairment

An impairment review of assets is undertaken on an annual basis with the Agency having to determine the fair value of its assets. Where there is no market-based evidence of fair value due to the specialised nature of the item, the Agency uses the Depreciated Replacement Cost approach such that it is appropriate to that asset with due consideration for the future benefits to the Agency of the asset.

Areas which management believes require the most critical accounting estimations are:

- Carrying value of property, plant and equipment

The Agency's accounting policy for property, plant and equipment assets is set out below. Estimated useful economic lives of property, plant and equipment are based on management's judgement and experience. Variations between actual and estimated useful lives could impact operating results both positively and negatively. Asset lives and residual values are reviewed annually and historically changes to remaining estimates of useful lives have not been material.

- Provision for doubtful debts

At each Statement of Financial Position date the Agency evaluates its ability to collect trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ from the estimated levels of recovery and could impact future operating results positively or negatively.

l) Financial Instruments

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are typically cash or rights to receive cash or equity instruments in another entity. Financial liabilities are typically obligations to transfer cash. A contractual right to exchange financial assets or financial liabilities with other entities will also be a financial asset or liability, depending on whether the conditions are potentially favourable or adverse to the reporting entity. Public Dividend Capital is not an equity instrument as defined in IAS 32. It is presented as a form of financing in the Statement of Financial Position.

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

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

Non-derivative financial liabilities comprise trade and other payables, and obligations under finance leases. These are classified as held-to-maturity. The Agency recognises these liabilities initially on the date at which the Agency becomes a party to the contractual provisions of the instrument, and derecognises when its contractual obligations are discharged, cancelled or expired. Trade and other payables are recognised initially at fair value. Fair value is usually the original invoiced amount.

m) Cash and cash equivalents

Operational cash is held in an interest-bearing current account with the Government Banking Service. The Agency does not have any bank overdrafts.

2. Income and surplus/(deficit) on activities

The following information is produced for Fees and Charges purposes and also meets some of the disclosures on segmental reporting required under IFRS 8 – Operating Segments. Income represents the revenue received for services provided by VOSA. All activities with the exception of a small element of Single Vehicle Approval work (included within Testing) were carried out in the United Kingdom.

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

For the year ended 31 March 2012

Activity/Segment	Testing	Administration of MOT scheme and standards control	Enforcement Work*	Licensing and Compliance	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Income	61,751	57,247	43,825	11,965	174,788
Expenditure	51,901	53,552	38,951	13,671	158,075
Surplus/(Deficit)	**9,850**	**3,695**	**4,874**	**(1,706)**	**16,713**

Reconciliation to reportable segment income and retained surplus	
Retained surplus for the year	16,713
Adjustments	0
Trading surplus after adjustments	**16,713**

For the year ended 31 March 2011

Activity/Segment	Testing	Administration of MOT scheme and standards control	Enforcement Work*	Licensing and Compliance	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Income	64,516	56,113	44,795	11,629	177,053
Expenditure	52,094	56,743	42,299	14,587	165,723
Surplus/(Deficit)	**12,422**	**(630)**	**2,496**	**(2,958)**	**11,330**

Reconciliation to reportable segment income and retained surplus	
Retained surplus for the year	11,330
Adjustments	0
Trading surplus after adjustments	**11,330**

- Enforcement work income includes categories of vehicle fees which we regard as enforcement in nature, and other direct DfT funding.

The segments used reflect how management information is provided to the Directing Board. Analysis of assets and liabilities by segment is not regularly provided to the Chief Executive or the Directing Board.

As grant funding provided by the Department for Transport is released to the segments to match costs incurred the above figures represent the outturn from activities that are funded wholly by fees and charges or direct funding from appropriate bodies.

- **Other operating income**

	2011/12 £'000s	2010/11 £'000s
Voluntary Testing	**4,290**	3,471
Write-off loan from Secretary of State	**3,280**	0
Release of Grant Funding to offset costs	**2,986**	4,239
Rent	**909**	766
Funding of Restructuring Costs	**803**	3,616
Replacement Documents	**631**	654
Commercial Training	**509**	534
Other	**374**	331
Total of other operating income	**13,782**	13,611

Other operating income relates predominantly to non-statutory testing activities and project funding received to enable VOSA to carry out projects and policy objectives that are assigned to it by DfT. Also included is the funding provided by DfT for restructuring costs and the write-off of a loan from the Secretary of State. This income is netted off the expenditure within the surplus/(deficit) shown above, but is separately shown on the face of the Statement of Comprehensive Income.

3. Staff costs

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

2011/12	Permanently employed staff £'000s	Short –term employment contract and Agency staff £'000s	Total £'000s
Wages and salaries	60,273	1,585	**61,858**
Other pension costs	10,814	0	**10,814**
Social Security costs	4,604	0	**4,604**
Early retirement costs	818	0	**818**
Sub total	76,509	1,585	**78,094**
Less recoveries in respect of outward secondments	(29)	0	(29)
Total staff costs	**76,480**	**1,585**	**78,065**

2010/11	Permanently employed staff £'000s	Short –term employment contract and Agency staff £'000s	Total £'000s
Wages and salaries	63,764	1,015	**64,779**
Other pension costs	11,614	0	**11,614**
Social Security costs	4,785	0	**4,785**
Early retirement costs	3,319	0	**3,319**
Sub total	83,482	1,015	**84,497**
Less recoveries in respect of outward secondments	(55)	0	**(55)**
Total staff costs	**83,427**	**1,015**	**84,442**

The employees of VOSA are Civil Servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. Pension scheme benefits are outlined in the Remuneration Report, and these entitlements apply to all staff.

For 2011/12, employer contributions of £10,713,000 were payable to the PCSPS (2010/11 £11,390,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. No amount of employee contributions have been capitalised during 2011/12 or 2010/11. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011/12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £76,000 (2010/11 £97,000) 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 employees' contributions up to 3% of pensionable pay. In addition, three individuals retired early on ill-health grounds with the total additional accrued pension liabilities in the year amounting to £6,218.

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

VOSA Pay Level	Broad category of staff in band	Number 2011/12	Number 2010/11
1	Handypersons	**23**	25
2	Testers, Assistant Administrative Officers	**107**	125
3	Vehicle Inspectors, Administrative Officers, Apprentices	**821**	870
4/5	Vehicle and Traffic Examiners, Executive Officers	**780**	885
6	Senior Vehicle Examiners, Senior Traffic Examiners, Higher Executive Officers	**317**	297
7	Area Managers, Senior Executive Officers	**83**	94
8/9	Senior Management	**30**	34
10	Directors	**3**	7
	Senior Civil Servants	**3**	2
	Average number of employees	**2,167**	**2,339**
	Average number of Traffic Commissioners and Deputy Traffic Commissioners support	**9**	10
	Agency and Contractor (man years)	**63**	46
	Secondments Inward	**0**	0
	Secondments Outward	**(1)**	(2)

As at 31 March 2012 the actual number of full time equivalent employees was 2,131 compared with 2,266 on 1 April 2011, a reduction of 135.

c) Reporting of Civil Service and other compensation schemes – exit packages

Exit package cost band	2011/12 Number of compulsory redundancies	2011/12 Number of other departures agreed	2010/11 Number of compulsory redundancies	2010/11 Number of other departures agreed
Less than £10,000	**0**	**2**	0	18
£10,000 - £25,000	**0**	**21**	0	17
£25,000 - £50,000	**0**	**13**	0	20
£50,000 - £100,000	**0**	**0**	0	27
£100,000 - £150,000	**0**	**0**	0	3
£150,000 - £200,000	**0**	**0**	0	1
£200,000 plus	**0**	**0**	0	1
Total number of exit packages by type	0	**36**	0	87
Total expenditure (£'000)	0	**818**	0	3,731

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

1972. Exit costs are accounted for in full in the year of departure. Ill-health retirement costs are met by the pension scheme and are not included in the table.

During the financial year 2011/12 there were no payments made which were not covered by the Civil Service Compensation Scheme.

4. Other operating charges

The constituent parts of other operating charges are as follows:

	2011/12 £'000s	2010/11 £'000s
MOT Scheme PFI service charges	**22,143**	22,175
Information technology	**14,954**	15,691
Rent	**5,542**	3,193
Estate running and maintenance costs	**5,431**	5,231
Travel and subsistence	**5,334**	4,860
Equipment maintenance costs	**2,987**	1,868
Rates	**2,821**	2,763
Legal and banking	**1,964**	2,386
Traffic Commissioners and Deputy Traffic Commissioners (see note 25)	**1,432**	1,411
Telecommunication costs	**1,423**	1,378
Postage and stationery	**1,305**	1,334
MOT Scheme IT costs	**695**	1,385
Training and conferences	**561**	262
Hire of plant and machinery	**491**	530
Provision of payroll services	**366**	344
Advertising	**111**	102
Statutory audit fees	**78**	80
Consultancy	**75**	558
Publications	**46**	145
Non-Executive Directors – fees and expenses	**41**	57
Customer research	**40**	107
Recruitment	**32**	35
Other	**2,090**	1,455
Total of other operating charges	**69,962**	67,350

5. Finance costs and dividend payable

a. Finance income

Interest receivable	2011/12 £'000s	2010/11 £'000s
Bank interest on cash deposits	**106**	113
Total finance income	**106**	**113**

b. Finance costs

Interest payable on:	2011/12 £'000s	2010/11 £'000s
Long term loans to the Secretary of State	**3,506**	4,445
Finance Lease	**1,233**	1,502
Total finance costs	**4,739**	5,947

When the Vehicle Inspectorate Trading Fund was established in 1991 the opening financial position had more Public Dividend Capital than Long Term Loan. The normal gearing for a Trading Fund opening financial position 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. During the current financial year, in agreement with the Department for Transport, this payment of interest foregone was discontinued.

c. Dividend payable

VOSA's average rate of return on capital for 2011/12 was 19.1% against the financial target of an average 3.5%, as stated in Annex A on page 94 of the Annual Report. The calculation of this outturn is set out below:

	£'000	£'000
Retained Surplus for the year		**16,713**
Adjustments for non operating items:		
Impairment of assets	1,043	
Loss on disposal of assets	685	
Write-off of loan from Secretary of State	(3,280)	
Restructuring costs funding	(803)	
Actual Return made by way of interest payments	3,506	
Total adjustments		**1,151**
Revised Surplus for return on capital purpose		**17,864**
Average capital employed over the year		**93,701**
Return on capital		**19.1%**

A dividend is payable from this target. This dividend is limited to the annual average target of 3.5%.

The calculated level of return to the Treasury is £3,279,500 based on the target average return of 3.5%. As the interest paid on long-term loans totals more than the calculated level of return, no dividend is payable in respect of the 2011/12 financial year.

6) Property, plant and equipment

2011/12 £'000	Land	Buildings	Plant & Equipment	Transport Equipment	Information & Communication Technology	Assets in the course of Construction	Total
Cost or valuation							
At 1 April 11	28,800	131,244	34,390	6,979	4,727	199	**206,339**
Additions	0	29	128	506	27	870	**1,560**
Disposals	(2,000)	(3,892)	(468)	(278)	(67)	(0)	**(6,705)**
Reclassification	0	13	3	0	3	(19)	**0**
Revaluation	(962)	(27)	1,774	114	4	0	**903**
At 31 March 2012	25,838	127,367	35,827	7,321	4,694	1,050	**202,097**
Accumulated Depreciation							
At 1 April 11	0	55,719	26,623	4,599	3,078	0	**90,019**
Charges for year	0	3,444	1,726	852	782	0	**6,804**
Disposals	0	(3,186)	(447)	(278)	(67)	0	**(3,978)**
Reclassification	0	(0)	0	0	0	0	**0**
Revaluation	0	412	1,727	74	2	0	**2,215**
At 31 March 2012	0	56,389	29,629	5,247	3,795	0	**95,060**
Net Book Value							
At 1 April 2011	28,800	75,525	7,767	2,380	1,649	199	**116,320**
At 31 March 2012	25,838	70,978	6,198	2,074	899	1,050	**107,037**
Asset Financing							
Owned Assets	25,838	47,766	6,198	2,074	899	1,050	**83,825**
Leased Assets	0	23,212	0	0	0	0	**23,212**
Net book value as 31 March 2012	**25,838**	**70,978**	**6,198**	**2,074**	**899**	**1,050**	**107,037**

2010/11 £'000	Land	Buildings	Plant & Equipment	Transport Equipment	Information & Communication Technology	Assets in the course of Construction	Total
Cost or valuation							
At 1 April 2010	30,966	134,497	34,617	6,855	4,656	1,056	**212,647**
Additions	0	252	229	544	78	(153)	**950**
Disposals	(102)	(594)	(118)	(788)	(48)	(239)	**(1,889)**
Reclassification	0	18	5	406	77	(465)	**41**
Revaluation	(2,064)	(2,929)	(343)	(38)	(36)	0	**(5,410)**
At 31 March 2011	28,800	131,244	34,390	6,979	4,727	199	**206,339**
Accumulated Depreciation							
At 1 April 2010	0	53,474	24,995	4,399	2,327	0	**85,195**
Charges for year	0	3,593	1,971	979	774	0	**7,317**
Disposals	0	(86)	(95)	(782)	(15)	0	**(978)**
Reclassification	0	0	0	25	6	0	**31**
Revaluation	0	(1,262)	(248)	(22)	(14)	0	**(1,546)**
At 31 March 2011	0	55,719	26,623	4,599	3,078	0	**90,019**
Net Book Value							
At 1 April 2010	30,966	81,023	9,622	2,456	2,329	1,056	**127,452**
At 31 March 2011	28,800	75,525	7,767	2,380	1,649	199	**116,320**
Asset Financing							
Owned Assets	28,800	51,439	7,767	2,380	1,649	199	**92,234**
Leased Assets	0	24,086	0	0	0	0	**24,086**
Net book value as 31 March 2011	28,800	75,525	7,767	2,380	1,649	199	**116,320**

The control and management of freehold land and buildings is vested in VOSA as if legal transfer had been effected. The useful economic lives of these assets were assessed during 2004/05 at 40 years from 1 August 1988, when these assets were first vested in the Agency. Consequently, the net book value at 1 April 2004 has been depreciated over the remainder of the useful economic life.

- **Property Valuations**

Twenty percent of VOSA's land and buildings were valued by the Valuation Office Agency (VOA) on the basis of market value for existing use in accordance with the Royal Institution of Chartered Surveyors' guidance. During the year those properties which were identified as having a negative revaluation position in the revaluation reserve as at 1 April 2010 were also revalued by the VOA on the same basis of market value for existing use.

All properties were occupied by VOSA during the year.

- **Other Asset Valuations**

Plant, vehicles and computer hardware were revalued using appropriate indices.

Surpluses arising from the application of indices to other categories of assets are credited to the revaluation reserve. Diminutions in value in respect of 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 Statement of Comprehensive Income.

The net deficit arising in the year is £1,311,000 (2010/11 £3,864,000). An amount of £268,000 has been charged to the revaluation reserve following recognition of impairments of £1,043,000, £76,000 on land, £610,000 on buildings and £357,000 on equipment.

The total amount charged to the Statement of Comprehensive Income on the disposal of assets during the year was £0.7m. This was represented by an asset in the category of freehold land and buildings (£2.7m), and minimal values (<£0.1m) in leasehold properties, equipment, vehicles and information technology assets. Proceeds from the sale of these assets totalled £2.0m.

- **Heritage Assets**

VOSA maintains Agaton Fort which is part of Plymouth Goods Vehicle Test Station and has the objective to protect the historic site for the benefit of future generations. VOSA considers that owing to the incomparable nature of the site, conventional valuation approaches lack sufficient reliability and that, even if valuations could be obtained, the costs would be onerous compared with the additional benefits derived by VOSA and users of the Accounts. As a result, no value is reported for these assets in the statement of financial position. Note 1 provides more detail on the accounting policy for the heritage asset.

The cost of associated major repairs is reported in the Statement of Comprehensive Income in the year it is incurred.

VOSA aims to maintain the condition of the site in a steady state of repair. Detailed condition surveys are undertaken every 5 years.

7) Intangible assets

Intangible assets comprise capitalised expenditure on website, information technology and software licences.

2011/12 £'000	Software*	Assets in the course of Construction	Total
Cost or valuation			
At 1 April 2011	91,289	318	**91,607**
Additions	294	696	**990**
Disposals	0	0	**0**
Reclassification	55	(55)	**0**
Revaluation	0	0	**0**
At 31 March 2012	91,638	959	**92,597**
Amortisation			
At 1 April 2011	56,538	0	**56,538**
Charges for year	10,663	0	**10,663**
Disposals	0	0	**0**
Reclassification	0	0	**0**
Revaluation	0	0	**0**
At 31 March 2012	67,201	0	**67,201**
Net Book Value			
At 1 April 2011	34,751	318	**35,069**
At 31 March 2012	**24,437**	**959**	**25,396**
Asset Financing			
Owned Asset	5,788	959	**6,747**
PFI Contract	18,649	0	**18,649**
Net Book Value at 31 March 2012	**24,437**	**959**	**25,396**
Significant Intangible Assets controlled by the Agency were as follows:		Remaining Life	Net Book Value at 31 March 2012
Electronic test booking		1	22
MOT Computerisation System		4	22,136
Banking Security		2	473
Licensing		2	454
Disaster Recovery		AUC	291
Other software		>2	2,020
Net book value at 31 March 2012			**25,396**

Restated 2010/11 £'000	Software*	Assets in the course of Construction	Total
Cost or valuation			
At 1 April 2010	90,957	631	**91,588**
Additions	0	266	**266**
Disposals	(234)	0	**(234)**
Reclassification	566	(579)	**(13)**
Revaluation	0	0	**0**
At 31 March 2011	91,289	318	**91,607**
Amortisation			
At 1 April 2010	43,435	0	**43,435**
Charges for year	13,206	0	**13,206**
Disposals	(98)	0	**(98)**
Reclassification	(5)	0	**(5)**
Revaluation	0	0	**0**
At 31 March 2011	56,538	0	**56,538**
Net Book Value			
At 1 April 2010	47,522	631	**48,153**
At 31 March 2011	34,751	318	**35,069**
Asset Financing			
Owned Asset	10,774	318	**11,092**
PFI Contract	23,977	0	**23,977**
Net Book Value at 31 March 2011	**34,751**	**318**	**35,069**
Significant Intangible Assets controlled by the Agency were as follows:		Remaining Life	Net Book Value at 31 March 2011
Electronic test booking		1	1,358
MOT Computerisation System		5	28,666
Banking Security		3	738
Licensing		3	973
Other software		>3	3,334
Net book value at 31 March 2011			**35,069**

*Assets that have in previous years been categorised as Financial Assets have been incorporated within Intangible Assets.

Intangibles, including computer software and software licences, are carried at cost, less any accumulated amortisation and any accumulated impairment losses reflecting the specialised nature of the asset.

Previously, the MOT system had been classified as a financial asset, but after further review this year it has been reclassified as an intangible asset since the software and computer terminals are inseparable in practice and is included in the above figures. Previous years have been restated for clarity.

Following the annual impairment review, no impairments have been recognised in the year.

8. Assets classified as held for sale

There were no assets classified as held for sale as at 31 March 2012 or 31 March 2011.

9. Receivables

a) Amounts falling due within one year:

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Trade receivables	**5,678**	4,471	11,140
Interest receivable	**12**	8	8
Recoverable VAT	**1,473**	2,203	2,523
Prepayments and accrued income	**1,050**	3,356	5,047
Other receivables	**56**	51	52
Total receivables due within one year	8,269	10,089	18,770

Intra-Government Receivable Balances

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Balances with other Central Government bodies	**6,938**	5,476	13,111
Balances with Public Corporations and Trading Funds	**180**	208	21
Balances with Local Authorities	**117**	140	107
Intra-government balances	**7,235**	5,824	13,239
Balances with bodies external to Government	**1,034**	4,265	5,531
Total receivables	8,269	10,089	18,770

b) Amounts falling due after more than one year:

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Prepayments and accrued income	**10,500**	10,752	13,148
Total receivables falling due after more than one year	10,500	10,752	13,148

Intra-Government Receivable Balances

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Balances with other Central Government bodies	**0**	0	0
Balances with Public Corporations and Trading Funds	**0**	0	0
Balances with Local Authorities		0	0
Intra-government balances	**0**	0	0
Balances with bodies external to Government	**10,500**	10,752	13,148
Total receivables	10,500	10,752	13,148

10) Liabilities

a) Amounts falling due within one year:

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Trade payables	**894**	1,358	6,909
Payroll liability	**2,529**	2,571	2,915
Other trade liabilities	**626**	465	659
Loans due within one year	**14,087**	22,472	22,038
Accruals and deferred income	**13,821**	14,270	46,592
Fees in advance	**14,914**	13,875	12,633
Project funding from DfT (see below)	**17,325**	9,866	22,151
Other liabilities	**66**	95	19
Current part of imputed finance lease element of PFI contract	**5,928**	5,646	5,375
Capital accruals	**774**	82	351
Total current liabilities	**70,964**	**70,700**	**119,642**

Project funding from DfT	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Development of systems in preparation for transfer to Shared Services	**6,455**	605	0
Development of High Risk Traffic Initiative Sites	**3,500**	3,500	2,500
Installation of canopies and pit lanes at strategic enforcement sites	**1,800**	0	0
Implementation of National Register – Interconnectivity	**1,614**	0	0
Implementation of Testing Transformation Programme	**1,102**	2.386	4,200
Installation of ANPR capability across VOSA enforcement vehicle fleet	**1,000**	0	0
Provision of ANPR/WIMS capability across national network	**840**	1,400	1,960
Implementation of Whole of Europe Vehicle Type Approval scheme	**555**	555	456
Implementation of Digital Tachograph scheme	**265**	796	1,327
Installation of Automatic Meter Reader at VOSA sites	**121**	157	192
Implementation of Graduated Fixed Penalty and Deposits scheme	**46**	315	585
Other – Proceeds from Crime and London Low Emissions Zone funding from Transport for London	**27**	0	0
Installation of weighbridge equipment across enforcement sites	**0**	152	364
Single Enforcement Budget Funding in advance	**0**	0	10,000
Development of Commercial Customer Portal	**0**	0	567
Total grant funding	**17,325**	**9,866**	**22,151**

b) Amounts falling due after more than one year:

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Other liabilities greater than one year	**110**	321	617
Deferred Income	**10,774**	11,295	11,250
Imputed finance lease element of PFI contract	**16,152**	22,079	27,723
Total non current liabilities	**27,036**	33,695	39,590

c) Intra-Government Liability Balances:

	31 March 2012 £'000s		31 March 2011 £'000s		1 April 2010 £'000s	
	Liabilities due within 1 year	Liabilities due after 1 year	Liabilities due within 1 year	Liabilities due after 1 year	Liabilities due within 1 year	Liabilities due after 1 year
Balances with other Central Government bodies	**27,584**	**0**	32,665	0	49,568	0
Balances with Public Corporations and Trading Funds	**2**	**0**	0	0	0	0
Balances with Local Authorities	**53**	**0**	258	0	208	0
Intra-government balances	**27,639**	**0**	32,923	0	49,776	0
Balances with bodies external to Government	**43,325**	**27,036**	37,777	33,695	69,866	39,950
Total Liabilities	**70,964**	**27,036**	70,700	33,695	119,642	39,950

11) Finance leases

As at 31 March 2012 the only obligation under a finance lease related to the MOT Computerisation PFI Contract of which details can be found in notes 20 & 21.

12) Cash & Cash Equivalents

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
Government Banking Service	**51,634**	33,018	67,682
Commercial banks and cash in transit	**0**	0	954
Total	**51,634**	33,018	68,636

13) Fines remitted to HM Treasury

In England and Wales, section 54 of the Road Traffic Offenders Act 1988, as amended (RTOA88)2, empowers an examiner who has reason to believe that a person is committing, or has on that occasion committed a fixed penalty offence (subject to some restrictions), to issue a fixed penalty notice in respect of the offence.

Annex B shows the Trust Statement for the scheme which has been prepared in accordance with the Accounts direction issued by HM Treasury under section 4(6)(a) Government Trading Funds Act 1973.

14) Analysis of changes in net funds

	At 1 April 2011 £'000s	Cash Flow £'000s	Other Changes £'000s	At 31 March 2012 £'000s
Balances at Government Banking Service	33,018	18,616	0	**51,634**
Loans due within one year	(22,472)	19,192	(10,807)	**(14,087)**
Loans due after one year	(76,102)	0	14,087	**(62,015)**
Total	(65,556)	37,808	3,280	**(24,468)**

15) Provision for liabilities and charges

	Early Departure £'000s	Lease Obligations £'000s	Other £'000s	Total £'000s
At 1 April 2011	7,671	0	660	**8,331**
Increase in provisions and liabilities in the year	803	2,339	1,533	**4,675**
Utilised in-year	(2,747)	0	(218)	**(2,965)**
Release of provision not required	0	0	(53)	**(53)**
Unwinding of discount	(32)	0	0	**(32)**
At 31 March 2012	**5,695**	**2,339**	**1,922**	**9,956**

Analysis of expected timing of discounted flows

	Early Departure £'000s	Lease Obligations £'000s	Other £'000s	Total £'000s
In one year or less, or on demand	1,518	78	1,922	**3,518**
In more than one year but less than two years	4,177	78	0	**4,255**
In more than two years but no more than five years	0	234	0	**234**
In more than five years	0	1,949	0	**1,949**
	5,695	**2,339**	**1,922**	**9,956**

The Agency meets the additional cost of benefits beyond the normal PCSPS/Stakeholder scheme benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS/Stakeholder schemes over the period between early departure and normal retirement age. The Agency provides for this in full when the early retirement scheme becomes binding by establishing a provision for the estimated payments.

Included within the category of Other are expected costs for dilapidations, potential liabilities under specific contracts the terms of which we may not be in a position to fulfil, and personal injury claims which the Agency expects to be paid within the next year.

The category of lease obligations reflects the crystallisation of future liabilities of long term leases for properties which we have ceased to occupy but which it is not expected we will be able to sub-let or revoke the lease.

16) Public Dividend Capital

	31 March 2012 £'000s	31 March 2011 £'000s	1 April 2010 £'000s
As at 1 April	**28,983**	28,983	28,983
As at 31 March	**28,983**	28,983	28,983

Public Dividend Capital (PDC) 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 additional PDC 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 the Traffic Area Network and the Vehicle Inspectorate Trading Fund on 1 April 2003. The total PDC issued at 31 March 2012 is £28,983,000.

17) Financial Instruments

- **Fair Values**

The fair values of the Agency's financial assets and liabilities at 31 March 2012 are shown below. With the exception of the Imputed Finance Lease element of Private Finance Initiative (PFI) Contract in the table below, due to the short term nature of the financial instruments held, carrying value is considered to represent fair value.

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

	2011/12 Fair Value £'000s	2011/12 Carrying amount £'000s	2010/11 Fair Value £'000s	2010/11 Carrying amount £'000s
Financial Assets				
Cash and cash equivalents (Note 12)	**51,634**	**51,634**	33,018	33,018
Receivables (Note 9)				
Trade receivables	**5,678**	**5,678**	4,471	4,471
Interest receivable	**12**	**12**	8	8
Recoverable VAT	**1,473**	**1,473**	2,203	2,203
Other receivables	**56**	**56**	51	51
Total receivables	**7,219**	**7,219**	6,733	6,733
Total Financial Assets	**58,853**	**58,853**	**39,751**	**39,751**
Financial Liabilities				
Trade and other payables (Note 10)				
Trade payables	**894**	**894**	1,358	1,358
Payroll liability	**2,529**	**2,529**	2,571	2,571
Other trade liabilities	**626**	**626**	465	465
Long term loans due within one year	**14,087**	**14,087**	22,472	22,472
Accruals and deferred income	**24,595**	**24,595**	25,565	25,565
Fees in advance	**14,914**	**14,914**	13,875	13,875
Project funding from DfT	**17,325**	**17,325**	9,866	9,866
Other liabilities	**176**	**176**	416	416
Imputed finance lease element of PFI contract	**21,684**	**22,080**	27,231	27,725
Capital accruals	**774**	**774**	82	82
Total Financial Liabilities	**97,604**	**98,000**	**103,901**	**104,395**

The fair values above have been calculated using the discount rate implicit in the finance lease and contracts.

- **Financial Risk Management**

The Agency's activities exposed it to the following financial risks:

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

- **Overall procedures for managing risk**

The Agency's overall risk management procedures focus on the systems of control to manage risk to a reasonable level rather than to attempt to eliminate all risk of failure to achieve policies, aims and objectives (see Governance Statement).

The financial systems of management control established include:

- A monthly monitoring cycle, which supports budgetary controls, monitoring volume and change demand. This process is fundamental as part of our efficiency and Value for Money (Vfm) planning and monitoring, especially in respect of headcount;
- Business Delivery Board (BDB) – delegated responsibility for day to day management of the Agency's business including expenditure responsibilities, providing advice on the operational budgets and performance, and on programme and project budgets and delivery, to the Directing Board. Chaired by a Director, the BDB meets on a monthly basis;
- Investment Board (IB) – delegated responsibility for project affordability and VfM, providing advice to the Directing Board on approved projects for investment and contract renewals. Chaired by a Director, the IB meets on a monthly basis;
- Business Change Board (BCB) – scrutinises the change programme ensuring alignment with the change portfolio;
- Monthly reporting (including KPIs, income and expenditure, programme expenditure) to our sponsor, the Motoring Services Directorate of the Department for Transport; and

- Quarterly review of Directorate budgets and performance at CEO/Director Review meetings.

- **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the Agency's customers and other parties. The Agency does not undertake investment of cash holdings, and retains cash balances in its Government Banking Services account. The Agency does not use third party money markets thus avoiding the risk associated with depositing surplus funds in such markets.

- **Exposure to credit risk**

The carrying amount of the financial assets £58,853,000 (31 March 2011 £39,751,000) represents the maximum credit exposure.

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

	31 March 2012 £'000s	31 March 2011 £'000s
Not past due	**1,545**	2,664
Past due 0 - 30 days	**5,581**	4,016
Past due 31 - 120 days	**5**	28
More than 120 days	**88**	25
Total	**7,219**	**6,733**

There has been no impairment provision for 2011/12 (2010/11 £nil). As the majority of the Agency's balances comprise other Government Departments and Agencies, it believes that no further impairment allowance is necessary in respect of other trade receivables.

- **Liquidity risk**

The Agency's exposure to liquidity risk is limited. The level of capital expenditure payments relating to VOSA investment programmes and projects are managed and met from available cash balances. Projects undertaken at the direct behest of the Department for Transport are funded by grants from the Department for Transport. The financial liabilities, including interest payments relating to the ATOS PFI contract (note 20) and loans from the Secretary of State (note 18) are:

31 March 2012:

Non derivative financial instruments	Carrying amount	Future contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£'000s						
PFI Liabilities	22,080	24,072	3,438	3,439	6,877	10,318	0
Loans from DfT	76,102	76,102	8,043	6,044	11,277	22,018	28,720
Total	**98,182**	**100,174**	**11,481**	**9,483**	**18,154**	**32,336**	**28,720**

Non derivative financial instruments	Fair value	Fair value of contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£'000s						
PFI Liabilities	21,684	21,684	3,358	3,278	6,250	8,798	0
Loans from DfT	76,102	76,102	8,043	6,044	11,277	22,018	28,720
Total	**97,786**	**97,786**	**11,401**	**9,322**	**17,527**	**30,816**	**28,720**

31 March 2011:

Non derivative financial instruments	Carrying amount	Future contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£'000s						
PFI Liabilities	27,275	30,949	3,439	3,439	6,878	17,193	0
Loans from DfT	98,574	98,574	13,788	8,684	14,087	26,940	35,075
Total	**125,849**	**129,523**	**17,227**	**12,123**	**20,965**	**44,133**	**35,075**

Non derivative financial instruments	Fair value	Fair values of contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£'000s						
PFI Liabilities	27,231	27,231	3,358	3,278	6,250	14,345	0
Loans from DfT	98,574	98,574	13,788	8,684	14,087	26,940	35,075
Total	**125,805**	**125,805**	**17,146**	**11,962**	**20,337**	**41,285**	**35,075**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

- **Market Risk**
    - **Interest rate risk**

The Agency has been exposed to interest rate movements on its cash balances only. Cash balances are held in short term, floating interest earning accounts held in Government Banking Service Bank Accounts. Movements in interest rates will impact the level of interest income credited to the Statement of Comprehensive Income. At the reporting date the fixed rate interest bearing financial instruments are shown below:

	Carrying amount	
	2012 £'000s	2011 £'000s
Fixed rate instruments		
PFI finance lease liability	**22,080**	27,724
Variable rate instruments		
Interest bearing bank accounts	**51,634**	33,018

- **Fair value sensitivity for fixed rate instruments**

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

- **Cash flow sensitivity analysis for variable rate instruments**

A change of 0.5% in interest rates at the reporting date would have increased/(decreased) the surplus of deficit for the year by the amounts shown below. The analysis is performed on the same basis as for 2009/10.

	Surplus or deficit : 0.5% increase/(decrease)	
	£'000s	£'000s
31 March 2012	258	(258)
31 March 2011	165	(165)

- **Foreign exchange rates**

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 with the Government Banking Service.

18) 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 Current Liabilities	After one year - included in Taxpayers' Equity
Loans outstanding at 31 March 2012	**£'000**	**£'000**
Replacement Vesting Loan issued in 2006/07 20 year repayment loan at 4.55% interest	2,626	6,149
Loan issued in 1996/97 20 year repayment at 8.25% interest	62	216
Loan issued in 2003/04 15 year repayment at 4.35% interest	581	3,196
Loan issued in 2003/04 15 year repayment at 4.9% interest	677	4,061
Loan issued in 2004/05 15 year repayment at 4.6% interest	400	2,800
Loan issued in 2005/06 15 year repayment at 4.4% interest	500	3,750
Loan issued in 2005/06 15 year repayment at 4.5% interest	667	5,666
Loan issued in 2006/07 15 year repayment at 5.15% interest	1,167	11,083
Loan issued in 2007/08 15 year repayment at 4.54% interest	1,533	16,100
Loan issued in 2008/09 5 year repayment at 1.78% interest	4,000	6,000
Loans issued in 2009/10		
3 year repayment at 1.26% interest	477	0
5 year repayment at 1.82% interest	891	1,782
10 year repayment at 3.0% interest	173	1,212
3 year repayment at 1.26% interest	333	0
Total of repayable loans	**14,087**	**62,015**
Loans outstanding at 31 March 2011	**22,472**	**76,102**

In the year a loan from the Secretary of State was written-off from the short term element due for payment in-year, as the assets for which it had been provided (the Commercial Portal) had been written off in a prior period.

19) Capital commitments

As at 31 March 2012 there were £1,708,000 capital commitments (31 March 2011 nil).

20) Commitments under PFI contracts

Previously, the MOT system had been classified as a financial asset, but after further review this year it has been reclassified as an intangible asset since the software and computer terminals are inseparable in practice (see note 7)

The substance of the contract is that VOSA has a finance lease where payments comprise two elements – imputed finance lease charges and service charges. The finance lease charges can be seen in the table below:

	31 March 2012 £'000	31 March 2011 £'000
Total obligations under PFI contracts for the following periods comprise:		
Not later than one year	**6,877**	6,877
Later than one year and not later than five years	**17,195**	24,072
Later than five years	**0**	0
Sub total	**24,072**	30,949
Less interest element	**(1,992)**	(3,225)
Total	**22,080**	27,724

21) Charges to the Statement of Comprehensive Income and future commitments

The total amount charged to the Statement of Comprehensive Income in respect of the service element of the PFI contract was £22,143,000 (2010/11 £22,175,000). The minimum payments to which the Agency is committed as at the 31 March 2012, analysed by the period during which the payment will be made, are as follows:

	31 March 2012 £'000	31 March 2011 £'000
Committed minimum payments:		
Not later than one year	**18,477**	18,477
Later than one year and not later than five years	**40,343**	55,550
Later than five years	**0**	3,269
Total	**58,820**	77,296

22) Other commitments

As at 31 March 2012 VOSA had annual commitments under operating leases as follows:

	31 March 2012		31 March 2011	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Payment date:				
Not later than one year	**407**	**9,427**	216	9,414
Later than one year and not later than five years	**2,716**	**15,897**	4,710	25,043
Later than five years	**10,801**	**0**	11,939	0
Total	**13,924**	**25,324**	16,865	34,457

23) Contingent liabilities

There are also a small number of claims against the Agency the outcome of which cannot at present be stated with certainty.

24) Losses and Special Payments

There were no losses or Special Payments made in either 2011/12 or 2010/11.

25) Related party disclosures

DfT 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 Driving Standards Agency and Driver and Vehicle Licensing Agency.

In addition, VOSA had a small number of transactions with other Government Departments and other central government bodies. Most of these transactions have been with the Treasury Solicitor's Department, HM Courts and Tribunals Service and Transport for London. In addition we share data with the UK Border Agency.

Included in note 3 are the costs of the Traffic Commissioners. Costs relate to their salaries, travel and subsistence and the use of Deputy Traffic Commissioners.

The Traffic Commissioners are appointed by the Secretary of State for Transport and have responsibility in their traffic area for the licensing of the operators of heavy goods vehicles (HGVs) and of buses and coaches (public service vehicles or PSVs); the registration of local bus services; and regulatory action against drivers of HGVs and PSVs. Commissioners are statutorily independent in their licensing and judicial functions. A key part of their judicial role is to hold Public Inquiries, in particular to consider the environmental suitability of HGV operating centres and whether action should be taken against operators who have not complied with the conditions of their licences.

Each Traffic Commissioner is supported by a team in each local Office of the Traffic Commissioner (OTC) which provides administrative support to each Commissioner in fulfilling their Public Inquiry and Tribunal roles. Following the full centralisation of operator licensing in 2007, all staff who undertake the licensing administrative functions* are now based at the Leeds office. Each licensing team is responsible for one or two Traffic Commissioners and in certain routine cases they act on the Traffic Commissioners' behalf under delegated powers, on the specific direction of an individual Traffic Commissioner. Staff in both the OTCs and licensing teams are employed by the Vehicle and Operator Services Agency. The costs of the Traffic Commissioner system, the OTCs and licensing teams are paid for through the fees that operators pay for their licences and for the registration of local bus services.

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

*with the exception of Scottish bus route registrations which are a devolved matter

26) Prior Year Adjustments

Several adjustments have been made to previously reported comparatives to ensure that the correct accounting treatment has been implemented and that VOSA's Accounts fully comply with the FReM and International Financial Reporting Standards (IFRS).

The only adjustment that has impacted on the retained surplus relates to financing received from Central Government budgets to support restructuring costs which, in previous years, was credited to the General Fund (and Other Comprehensive Income) in the financial year it was received. After further consideration this treatment has been amended this year with such funding being credited to the Statement of Comprehensive Income, within other income, to match the costs incurred. This has increased the retained surplus previously reported for 2010/11 by £3,616,000, with no impact on net assets or the Statement of Financial Position.

Other than this, the retained surplus has not changed but a number of other changes have been made to more closely align the accounts with IFRS requirements.
These include:

- reclassification of the MOT system. It had been classified as a financial asset but, after further review this year, it has been identified that it should have been classified as an intangible asset since the software and computer terminals are inseparable in practice. The impact of this is to increase intangible assets by £23,977,000 at 31 March 2011 and £29,305,000 at 1 April 2010, with the previously reported non-current financial assets category being reduced to zero balance. The asset was amortised appropriately in previous years so there is no impact on the Statement of Comprehensive Income or on net assets.
- adjustment of negative revaluation balances for a number of properties which were previously included in the revaluation reserve. These balances related to downwards movements prior to 1 April 2010, and under International Financial Reporting Standards (IFRS) these downwards revaluations should have been charged to the General Fund. The effect of this adjustment increased the deficit on the General Fund as at 1 April 2010 from £(36.8)m to £(46.6)m, and increased the revaluation reserve from £16.5m to £26.3m. As at 31 March 2011 the deficit on the General Fund increased from £(25.5)m to £(35.3)m and the revaluation reserve increased from £12.9m to £22.7m.
- presentation of the Other receivables greater than one year as a separate category on the face of the balance sheet. This has increased non-current assets by £10,752,000 at 31 March 2011 and £13,148,000 at 1 April 2010, and decreased Current assets by the same amounts.
- Adjustments to the presentation of the Statement of Comprehensive Income to align more closely with IFRS. As a result of this, the deficit on disposal of property, plant

and equipment has moved from non-operating income to operating expenditure (increasing operating expenditure by £955,000) and Other Comprehensive Income has been expanded to include the downwards movement on the revaluation reserve of £3,614,000. This should have been included within Other Comprehensive Income in 2010/11, but was instead presented directly within the Statement of Changes in Taxpayers' Equity.

As a result of these changes there has been a consequential effect on the Statement of Cash Flows, which has also been amended to align with *IAS7 Statement of Cash Flows*. Categories within the statement have been amended as the previously reported categories did not comply with IAS7 but there has been no impact on the overall cash movement.

27) Events after the Reporting Period

There are no events after the Reporting Period to report.

28) Authorisation of Accounts

These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. IAS 10 requires VOSA to disclose the date on which the Accounts are authorised for issue. This is the date on which the certified Accounts are despatched by VOSA's management to the Secretary of State of the Department for Transport. The authorised date for issue is 21 June 2012.

Annex A

Treasury Minute setting VOSA's further financial objectives

Vehicle and Operator Services Agency

Setting of further financial objectives for the period 1 April 2008 to 31 March 2013

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) The trading fund for the Vehicle and Operator Services Agency was established on 1 April 2003 under the Vehicle and Operator Services Agency 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 the Vehicle and Operator Services Agency Trading Fund for the 5-year period from 1 April 2008 to 31 March 2013 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 consist of the capital (Public Dividend Capital and long-term element of loans) and reserves.

4) This minute supersedes that dated 11 March 2004.

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

(Treasury Minute dated 25 March 2008)

Trust Statement

Graduated Fixed Penalties and Deposits (GFPD) and Bus Penalties

Foreword

The fixed penalty system for vehicle-related offences has been used by police forces for a number of years. Fixed penalties provide an efficient, proportionate and direct way of dealing with a wide range of road traffic offences. The rights of individuals to challenge alleged offences in court are preserved, but the number of cases brought before the courts is still substantially reduced. Each year over 3 million fixed penalty notices are issued by the police for motoring offences in Great Britain. The system is widely accepted by the motoring public and the Government is satisfied that it is fully compliant with human rights legislation.

VOSA examiners now have the power to issue fixed penalty notices. The use of fixed penalties by VOSA simplifies the enforcement of offences and saves time for all concerned – for VOSA, for the courts and also for those offenders who would be willing to accept a fixed penalty in lieu of prosecution in court (indications show the majority will be likely to do so).

The fixed penalty system before the changes was relatively inflexible: each offence had a single fixed penalty amount, irrespective of the severity of the offence. There is now the ability to graduate the amount of the fixed penalty depending on the circumstances or the severity of the offence. At this time the graduated approach is only being used in the case of offences connected with the operation of commercial vehicles and for breaches of drivers' hours rules and overloading of vehicles.

A significant change is that there is now an effective system for enforcing road traffic law in respect of non-UK offenders and UK offenders. VOSA (and the police) can issue fixed penalties to non-UK resident and UK resident offenders, regardless of whether the offence is endorsable (i.e. if penalty points are to be endorsed on the driving licence/driving record); and request a financial penalty deposit from any offender who does not have a satisfactory address where they can be found in the UK.

Such deposit payments may be either in respect of a fixed penalty or as a form of surety in respect of a fine where an offence is to be prosecuted in court. Alleged offenders can choose to contest the offence in court if they wish to do so.

Alongside the Graduated Fixed Penalties and Deposits scheme, VOSA and the police were given the power to immobilise vehicles. This is used to overcome the problem of offenders ignoring a prohibition notice and driving off after VOSA or the police have left the enforcement site, and to deal with offenders who have not yet made, or have refused to make, a requested financial penalty deposit payment.

VOSA mainly uses this scheme when dealing with commercial goods and passenger carrying vehicles, covering areas such as construction and use (brakes, steering etc) and drivers' hours. An authorised examiner can, however, deal with any vehicle on the road, and issue fixed penalty notice(s) if appropriate.

Examiners exercise their powers to issue graduated fixed penalties and deposit requirements in line with VOSA's published policies, so that sanctions are applied consistently and fairly. An element of discretion will be required in certain circumstances, but this will be exercised in a proportionate and fair manner. Decisions will be proportional to the risks to individuals and to the wider public and to the seriousness of any breach.

Whilst this guidance is not legally binding on VOSA, their authorised examiners and administration teams, these practices will normally be adhered to unless there are persuasive reasons not to do so.

In England and Wales section 54 of the Road Traffic Offenders Act 1988, as amended, empowers an examiner who has reason to believe that a person is committing, or has on that occasion committed a fixed penalty offence (subject to some restrictions) to issue a fixed penalty notice in respect of the offence.

VOSA has incorporated this section of the Act into its enforcement activities through the Graduated Fixed Penalties and Deposits Scheme.

Since 2009 VOSA officers have the power to issue fixed penalties for a variety of road traffic offences - ranging from £30 to £200. Where the driver is unable to confirm a satisfactory UK address they are required to pay a deposit (equal to the value of that penalty) on the spot.

The use of fixed penalties by VOSA has the benefit of simplifying the enforcement of offences and saving time for the Agency, HM Courts and Tribunals Service and for those offenders who would be willing to accept a fixed penalty in lieu of prosecution in court.

VOSA also has powers to request immediate deposits where a driver has committed offences too numerous or severe to be dealt with by fixed penalty and a court appearance is more appropriate - up to the value of £900 in a single encounter. This money is held as a deposit against any fines imposed by the courts.

The number of fixed penalties issued to UK drivers since the scheme began is nearly 17,000 and to non-UK resident drivers nearly 33,000. In all cases VOSA collects the payment on behalf of HM Treasury and receipts collected are paid to them by VOSA at regular intervals.

This Trust Statement includes disclosure of figures relating to Bus Penalties this year, with prior year figures being restated as appropriate. Bus penalties can be ordered by a Traffic Commissioner against an operator of local bus services as a sanction under Section 155 of the Transport Act 2000. A Traffic Commissioner can impose a sanction if he/she determines that an operator of local bus services has failed to run the service or has done so not in accordance with the registered particulars or in contravention of a Quality Partnership Scheme. The penalty is payable to the Secretary of State in England or the devolved administrations. VOSA provide administrative support to the independent Traffic Commissioners in processing local bus service registrations. VOSA also provide support in identifying and gathering evidence against operators against whom it may be appropriate for the Traffic Commissioner to take regulatory action.

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

I certify that I have audited the financial statements which constitute the Trust Statement of the Vehicle and Operator Services Agency for the year ended 31 March 2012 under the Government Trading Funds Act 1973. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that it gives a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statement

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

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

Opinion on Regularity

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

Opinion on Trust Statement

In my opinion:

- the Vehicle and Operator Services Agency Trust Statement gives a true and fair view of the state of affairs as at 31 March 2012 relating to the collection of Graduated Fixed Penalties and Deposits and Bus Penalties and of the net revenue for the year then ended; and

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

Opinion on other matters

In my opinion:

- the information given in the Accounting Officer's Foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements are not in accordance with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

21 June 2012

Statement of Revenue, Other Income and Expenditure for the year ended 31 March 2012

	Notes	2011/12 £'000	Restated* 2010/11 £'000
Income			
Fines and Penalties	2	2,183	2,628
Total Income		2,183	2,628
Expenditure			
Credit losses	3	(7)	(11)
Net Revenue for the Consolidated Fund		**2,176**	2,617

*These figures have been restated to include values of Bus Penalties see note 2

The notes on pages 102 to 105 form part of the trust statement.

Statement of Financial Position as at 31 March 2012

	Notes		31 March 2012 £'000		31 March 2011 £'000
Current Assets					
Receivables	5	**23**		27	
Cash and cash equivalents	4	**369**		560	
Total current assets			**392**		587
Current payables	6		**(27)**		(46)
Assets less liabilities			**365**		541
Represented by:					
Balance on Consolidated Fund Account	7		**365**		541

The notes on pages 102 to 105 form part of the Trust Statement.

Statement of Cash Flows for the year ended 31 March 2012

	Notes	2011/12 £'000	Restated* 2010/11 £'000
Net cash flow from operating activities	Notes to the cash flow b)	**2,161**	2,601
Cash paid to the Consolidated Fund	7	**(2,352)**	(2,769)
(Decrease)/Increase in cash in this period		**(191)**	(168)

*These figures have been restated to include values of Bus Penalties see note 2

Notes to the Cash Flow Statement

a) The inclusion of bus penalties in this Trust Statement has no impact on the cash position as these funds are transferred to the HM Treasury each quarter.

b) Reconciliation of Net Cash Flow to movement in Net Funds

	Notes	2011/12 £'000	Restated* 2010/11 £'000
Net Income for the Consolidated Fund		**2,176**	2,617
Decrease/(increase) in receivables	5	**4**	12
(Decrease)/Increase in liabilities	6	**(19)**	(28)
Net Cash Flow from operating activities		**2,161**	2,601

*These figures have been restated to include values of Bus Penalties see note 2

c) Analysis of changes in Net Funds

	Notes	2011/12 £'000	Restated* 2010/11 £'000
(Decrease)/Increase in Cash in this period	4	**(191)**	(168)
Net Funds as at 1 April 2011		**560**	728
Net Funds as at 31 March 2012	**4**	**369**	560

*These figures have been restated to include values of Bus Penalties see note 2

The notes on pages 102 to 105 form part of the Trust Statement

Notes to the Trust Statement

1) Statement of Accounting Policies

a) Basis of Accounting

The Trust Statement is prepared in accordance with the 2011/12 Financial Reporting Manual (FReM) issued by HMTreasury and the accounts direction issued by HM Treasury under section 4(6)(a) of the Government Trading Funds Act 1973. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between VOSA and HM Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the Accounts.

The income contained in these statements are those flows of funds which VOSA handles on behalf of the Consolidated Fund and where it is acting as agent rather than as principal.

The financial information contained in the statements and in the notes is rounded to the nearest £'000.

b) Accounting Convention

The Trust Statement has been prepared in accordance with the historical cost convention.

c) Revenue Recognition

Penalties are measured in accordance with IAS 18 Revenue. They are measured at the fair value of amounts received or receivable. Revenue is recognised when an event that gives rise to a Fixed Penalty or a Deposit has occurred (i.e. when a penalty notice is issued) and when it can be measured reliably and it is probable that the economic benefits from the event will flow to the Exchequer. This event occurs when a VOSA examiner determines that an offence has been committed under section 54 of the Road Traffic Offenders Act 1988, as amended. Bus penalties are recognised when a Traffic Commissioner imposes a sanction against an operator under section 155 of the Transport Act 2000.

d) Receivables

Receivable balances are recognised where it is determined that a fixed penalty is settled within 28 days. After 28 days, unpaid fixed penalty cases are registered with and taken on by HM Courts and Tribunal Service.

e) Liabilities and Provisions

Liabilities are recognised in the financial statements where the value and timing of the obligation are known. Full provision is made in the financial statements where the extent of the liability is known with reasonable certainty.

f) Contingent liabilities

There are likely to be a number of court cases at the end of each financial year where neither the outcome nor the value of any settlement can be ascertained with any certainty. These instances could result in a contingent liability if the defendant is found not guilty with interest payable on the deposit. Any disclosure however could be prejudicial to the outcome of the case and therefore no disclosure is made within the financial statements.

g) Critical Accounting Judgements and Estimates

The Agency is not required to exercise significant judgement and make use of estimates and assumptions in the application of these accounting policies.

2) Revenue and Other Income (fines and penalties)

	2011/12 £'000	2010/11 £'000
Offences in:		
2010/11		
Fixed Penalties		2,431
Bus Penalties		197
Total Penalties		2,628
2011/12		
Fixed Penalties	**2,142**	
Bus Penalties	**41**	
Total Penalties	**2,183**	
Total	**2,183**	2,628

There are no other sources of income.

3) Expenditure

	2011/12 £'000	2010/11 £'000
Cash lost in transit	**7**	11
Total	**7**	11

Where the cash has not been received into the Agency's bank account, it has been recognised as cash lost in transit. These receipts are included within total revenue and as expenditure as above. Following confirmation from HM Treasury, this cash lost in transit is not paid into the Consolidated Fund.

4) Cash and Cash Equivalents

	31 March 2012 £'000	31 March 2011 £'000
Balance as at 1 April 2011	**560**	728
Net change in cash and cash equivalents	**(191)**	(168)
Balance as at 31 March 2012	**369**	560

The distribution of the balances stated above were:

	31 March 2012 £'000	31 March 2011 £'000
Government Banking Service*	**350**	393
Commercial bank account	**0**	0
Cash in transit	**19**	167
Total	**369**	560

*The Government Banking Service (GBS) was set up as a Pan Government Exercise to replace HM Office of Paymaster General (OPG) accounts. All funds were transferred over from OPG and Commercial accounts to the new GBS accounts in October 2010.

5) Receivables

	31 March 2012 £'000	31 March 2011 £'000
Fixed penalties issued in March	**23**	27
Balance as at 31 March 2012	**23**	27

A driver with a valid UK address has 28 days to make a payment for a fixed penalty offence. The Agency has recognised the above value where payment had not been received as at 31 March 2012.

6) Payables, accrued income liabilities and deferred income

	£'000				£'000
	31 March 2012				31 March 2011
	Payables	Accrued Income Liabilities	Deferred Income	Total	Total
Court Deposits	**14**	**0**	**0**	**14**	38
Refunds Due (returned cheques)	**12**	**0**	**0**	**12**	7
Unallocated Receipts	**1**	**0**	**0**	**1**	1
Total	**27**	**0**	**0**	**27**	46

Liabilities are amounts recorded in the Statement of Financial Position as at 31 March 2011 and where payment is expected to be made in a future period. Liability balances have been recognised for Court Deposits payable to HM Courts and Tribunals Service and for refunds payable.

7) Balance on the Consolidated Fund Account

	31 March 2012 £'000	31 March 2011 £'000
Balance on Consolidated Fund Account as at 1 April 2011	**541**	693
Net revenue for the Consolidated Fund	**2,176**	2,617
Less amounts paid to the Consolidated Fund	**(2,352)**	(2,769)
Balance as at 31 March 2012	**365**	541

8) Related party disclosures

VOSA is an Executive Agency of the Department for Transport.

HM Treasury & HM Courts and Tribunals Service are regarded as related parties.

Fixed Penalties collected at the roadside are held in a designated non-interest bearing account and paid over to HM Treasury on a quarterly basis.

Court Deposits are held in a designated non-interest bearing account until such time that VOSA is notified by the court of their decision. If the defendant is found guilty then VOSA makes a payment to the appropriate court. Where the defendant is found not guilty of the offence the deposit is refunded. At the 31 March 2012 the amounts held in relation to court payments totalled £15,000 whilst the amounts due to be refunded was £11,000 (31 March 2011 £38,000 and £7,000).

Accounts Direction given by HM Treasury in accordance with section 4(6)(a) of the Government Trading Funds Act 1973

1. This direction applies to those Trading Funds listed in the Appendix 2 to Annex H. (DAO GEN 05/11 20 December 2011)

2. The Trading Fund shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2012 for the revenue and other income collected by the Trading Fund as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2011/12.

3. The Statement shall be prepared, as prescribed in Appendix 1 to Annex H, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties by the Trading Fund as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

5. When preparing the Statement, the Trading Fund shall comply with the guidance given in the FReM (Chapter 13). The Trading Fund shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

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

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited Accounts before Parliament before the Summer Recess.

8. The Trust Statement, together with this direction (but with the exception of the related Appendices) and the Report produced by the Comptroller and Auditor General, under section 4(6)(a) of the Government Trading Funds Act 1973 shall be laid before Parliament at the same time as the Trading Fund’s Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Chris Wobschall
Head, Assurance and Financial Reporting Policy
HM Treasury
20 December 2011

Glossary

ANPR	Automatic Number Plate Recognition
ATF	Authorised Testing Facility
CRC	Carbon Reduction Commitment
CSE	Customer Service Excellence
CSR	Comprehensive Spending Review
DfT	Department for Transport
DVLA	Driver and Vehicle Licensing Agency
FTE	Full Time Equivalent
GFPD	Graduated Fixed Penalties and Deposits
GVTS	Goods Vehicle Test Station
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue & Customs
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IVA	Individual Vehicle Approval
LGV	Light Goods Vehicle
LRI	Part of DfT responsible for Licensing, Roadworthiness and Insurance
MFS	Motoring & Freight Services Group
MOT	Annual statutory test for private vehicles
NAO	National Audit Office
OCRS	Operator Compliance Risk Score
O-licence	Operator licence issued by Traffic Commissioners which permits the commercial operation of HGVs or PSVs.
PAC	Public Accounts Committee
PFI	Private Finance Initiative
PSV	Public Service Vehicle
SLA	Service Level Agreement
SOGE	Sustainable Operations on the Government Estate
TC	Traffic Commissioner
TfL	Transport for London
TTP	Testing Transformation Programme
VCA	Vehicle Certification Agency
VOSA	Vehicle and Operator Services Agency
VSB	Vehicle Safety Branch
WIMS	Weigh in Motion Sensors

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