Driver and Vehicle Licensing Agency

DVLA Annual Report & Accounts 2010-11

An executive agency of the Department for Transport

Driver and Vehicle Licensing Agency

Annual Report and Accounts 2010-11

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Chief Executive's message

I am pleased and proud to be in a position to report such good progress made during 2010-11 for the many and varied interests that this Agency serves.

For the second year running we achieved or bettered every one of the 19 service delivery standards and 8 customer promises. The records of 42 million drivers and 36 million vehicles that we hold and update, underpin the safe and orderly use of the road network that is vital for millions of journeys every day. The 200 million contacts with customers that our staff and systems handle each year are fundamental to this. We collect more than £5.7 billion of Vehicle Excise Duty on behalf of government effectively, with over 99 per cent compliance and efficiently with costs that decrease year-on-year in real terms. All in all 2010-11 was another year that the Agency delivered across the range of interests we serve.

During the year we continued our step by step overhaul of how we operate to maintain our position at the leading edge of public sector efficiency and electronic service delivery. We completed the build of the system that will allow us, alongside insurance companies, to enforce insurance evasion electronically and further protect road users.

These accounts show we have continued to reduce our operating costs significantly, exceeding our three year (Comprehensive Spending Review 2007) efficiency target of £80.7million by delivering £98.2 million. This transformed our Business Plan 2010-11 forecast surplus of £1.7 million into a surplus of £24 million, even after we continued with our re-investment in our information systems as planned. We have set ourselves a target of reducing DVLA operating costs by £100 million (by the end of the financial year 2014-15) compared to the baseline costs and activities within the Business Plan 2010-11. We have identified savings of £21.3 million, an excellent contribution and start towards our target.

Finally, I am delighted to have been confirmed in my role as Chief Executive and look forward to continue to lead this Agency, with its hard working and dedicated staff, into a challenging period ahead. We will continue on our journey to become even more efficient but still deliver high quality services to our customers and data users. We see these two objectives as complementary rather than competing, as we offer more electronic transactions and overhaul our service delivery through increasing our collaboration with other organisations.

Simon Tse
Accounting Officer and Chief Executive DVLA

Highlights for the Year

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Operational results

Successes

Key performance measures – we met five out of six of our key performance measures.

Customer service measures – we exceeded our target of 17 out of 19, achieving all customer service measures.

Failure

Improving insurance compliance – the Agency missed the performance measure to issue the first insurance advisory letter in March 2011. This was as a result of a delay in legislation. However, DVLA systems and process projects were delivered ahead of schedule and under budget. The first insurance advisory letters will now be sent out in June 2011.

Financial results

We achieved £24 million surplus against the 2010-11 Business Plan forecast of £1.7 million surplus.

DVLA delivered an efficiency gain of £46 million, exceeding our target of £36.2 million for the year.

Vehicle Excise Duty (VED) Collection

The Agency collected £5,782 million in VED (road tax), and £31 million fine and penalty income (£49 miilion gross fines collectable net of cost of commercial debt collectors employed, less £18 million written off).

VED evasion

National statistics published in December 2010 showed that VED evasion was 0.9 per cent by revenue, representing the second highest level of compliance ever achieved (having achieved an evasion rate of 0.6 per cent in 2009-10).

Electronic take-up

In 2010-11, we achieved another increase in take-up of DVLA electronic services. Electronic Vehicle Licensing/ Statutory Off Road Notification (SORN) increased to 51 per cent compared to 49 per cent for 2009-10, peaking in March 2011 at 53.2 per cent. Driver Licensing Online (DLO) also increased to 26.5 per cent.

Ten year driving licence renewals

In April 2010, the Agency introduced a new electronic service at Post Office® branches where drivers' photographs are captured as part of the transaction and sent to the Agency by a secure electronic link. The service has improved accessibility and choice for customers whilst at the same time realising efficiencies for the Agency. The service is now available at 752 Post Office® branches.

For more information visit
http://www.direct.gov.uk/en/Motoring/DriverLicensing/NeedANewOrUpdatedLicence/DG_078070

Five years online

The Agency celebrated the fifth anniversary of its DLO service. Since its launch in 2005, the Agency has issued 3.9 million driving licences through this channel. The online service provides customers with the facility to apply for a first provisional driving licence, renew their entitlement to drive at 70 and over and exchange a paper licence for a photocard licence. Customers can also update their address details, replace a lost/stolen or damaged licence and renew their photo (if a UK passport has been issued within the last five years). An additional benefit of using our electronic services is that the customer can then view their driver record.

For more information visit
http://www.direct.gov.uk/en/Motoring/DriverLicensing/NeedANewOrUpdatedLicence/index.htm

Customer service

DfT customer promises

We met all 8 DfT customer promises.

Change for the vehicle registration certificate

From 15 August 2010, DVLA started issuing the new style vehicle registration certificates (V5C) to help protect motorists from vehicle crime.

The new red V5C makes it clear that the certificate is not proof of ownership. Vehicle buyers are vulnerable to vehicle crime if they believe that the V5C is proof of ownership of a vehicle. In partnership with key stakeholders, DVLA published 'buyer beware' information on Directgov, providing advice on what to look out for when buying a used vehicle.

For more information visit
http://www.direct.gov.uk/buyerbeware

Awards and accreditation

Customer Service Excellence standard

Following assessment in November 2010, DVLA successfully maintained its accreditation to the Customer Service Excellence standard. This is the second year of the rolling programme review and has seen the Agency achieve its best result yet, achieving thirteen compliance plus elements and reducing the partial compliances to just two, from five last year.

The assessor said "DVLA is an example of a 'leading edge' organisation, in terms of putting the customer at the heart of its business".

Carbon Trust standard

DVLA has been officially certified with the Carbon Trust standard. This proves we have taken real action on climate change by reducing our carbon footprint. The Carbon Trust standard recognises which organisations have acted on climate change and are committed to ongoing emission reductions.

ISO 27001 standard

During 2010-11 a British Standards Institute appointed auditor carried out two surveillance audits for the Agency's ISO 27001 certification and the Information Security Management Systems.

Both audits were successful and highlighted the continual improvements made in maintaining and developing procedures in relation to the standard and security of information assets.

Customer Contact Association Global Standard

DVLA's Contact Centre achieved re-accreditation to the Customer Contact Association Global Standard for customer service for continued excellent performance, customer focus, employee learning and development and compliance with legislation and technology for the third year running. Out of more than 5,000 contact centres in the UK, only 125 organisations are accredited.

Investors in People

In 2010, the Agency received the Investors in People (IiP) long service award. The award celebrates ten consecutive years of IiP. To date over 37,000 organisations have achieved IiP recognition, but only 3,000 organisations have received the long service award.

Following a review in October 2010, the Agency successfully met the latest IiP standard. The assessors congratulated the Agency for improvements in its commitment to staff development, planning and communications.

Civil Service Human Resource Award 2010

DVLA won this prestigious award for engagement and health and well-being, with a presentation to the team by Sir Gus O'Donnell at Buckingham Palace.

This award highlights the work undertaken to improve staff engagement and wellbeing in support of organisational efficiency, which together with accuracy and customer service has been identified as a cornerstone of the Agency's strategic agenda.

1. Directors' Report

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1.1 Who we are and what we do

On 2 April 2010, the Driver and Vehicle Licensing Agency (DVLA) celebrated 20 years as an Executive Agency of the Department for Transport (DfT). DVLA (previously the Driver and Vehicle Licensing Centre DVLC) opened for business over forty years ago. Since then, the Agency has been through a radical process of change, moving away from a paper based organisation to a modern and highly efficient electronic business, providing online services to customers.

Our people

At the end of March 2011 the Agency was employing 5,561.3 Full Time Equivalent (FTE) staff. The majority of staff are based in Swansea, but the Agency has 39 local offices with over 1,222.8 FTE staff working for the local network.

Our main responsibilities include:

- maintaining over 44 million current driver records and 36 million current vehicle records, handling around 200 million customer interactions each year as a result
- collecting over £5.7 billion of Vehicle Excise Duty (VED)
- through enforcement action, collecting in excess of £100 million in additional VED
- supporting the police and intelligence authorities in dealing with crime.

We also:

- lead the way in government in providing electronic service channels to our customers drawing on public sector best practice to make such transactions easier and more secure
- seek out opportunities to work in partnership with other government agencies and industry representatives to make our activity more effective and efficient
- contribute to the Government sustainable development (SD) agenda by reducing carbon emissions, energy use and waste.

Our vision:

is to be a modern, highly efficient organisation, providing complete, accurate and up to date information and services that fully meet customer and stakeholder requirements.

Our key purpose:

is to keep complete, accurate registers of drivers and vehicles, and make them as accessible and as flexible as possible to those who have the rights to use them.

These registers underpin action by DVLA, the Police and others to keep road users safe and ensure that the law is respected and observed, allow us to collect VED effectively and can be used to deliver other government initiatives such as traffic management and reducing carbon emissions.

DVLA governance

A full account of DVLA's governance procedures are detailed in our Statement on Internal Control. A brief overview of the building blocks of Agency governance is as follows:

- DVLA is one of the Executive Agencies sponsored by the Department for Transport and plays an integral part in the corporate processes of assurance and risk management.
- The Agency Accounting Officer/Chief Executive chairs an Executive Board (EB) of five Executive Directors and two Non-Executive Directors. The EB meets monthly to review and manage operation performance towards milestones and strategic direction and the progress of the Change Portfolio against its milestones.
- Executive Directors agree personal performance contracts and staff working for each Executive Director are set personal objectives. Performance is formally reviewed both mid-year and end of year with documented evidence of what is delivered.
- The Accounting Officer's responsibilities are to safeguard public money and assets. To fulfil these responsibilities, the Accounting Officer is supported by risk management and an audit programme within the Agency, reporting to an Audit Committee of the two Non-Executive Directors and senior representatives from our sponsor department. The Chief Executive and Finance and Strategy Director attend this committee as observers.

Risk management

DVLA's risk management function is structured to take account of the internal governance structure and external environment to ensure DVLA can deliver its primary purpose and key performance measures. Risk management helps protect DVLA's reputation as a highly effective and efficient provider of services to customers and stakeholders. For more information see the **Statement on internal control in section 4.3**.

Disclosure of information to auditors

In so far as the Accounting Officer (AO) is aware, there is no relevant audit information of which the auditors are unaware and the AO has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Agency auditors are aware of this information.

The purpose of this document

This Annual Report and Accounts should be read in conjunction with the DVLA Business Plan 2010-11. This document sets out our performance and achievements for 2010-11.

This year, we have adopted a different approach to presenting our documents and are treating the internet as our primary way of presenting both the Business Plan 2011-12 and our Annual Report and Accounts 2010-11. We are updating our Business Plan on the internet monthly and quarterly to show progress to date, entirely in line with the Governments Transparency Agenda. As a result, both documents on the website benefit from additional navigation tools to make them more accessible and understandable for our stakeholders and the public. In addition, this has reduced costs for the Agency whilst widening the understanding of what we do. We would welcome feedback and suggestions to improve this new approach through our website. For more information visit **http://www.dft.gov.uk/dvla/publications.aspx**

1.2 What we delivered in 2010-11

	Key performance measures	2010-11	2009-10
	Better compliance to support improved road safety		
1	**Accuracy (traceability)** Maintain the accuracy of the vehicle register so that a registered keeper can be traced from details held on record in 95% of cases	Exceeded 97.8% of cases	Exceeded 97.1%
	Transforming customer service		
2	**Customer satisfaction** Deliver the 8 DfT Customer Promises	Achieved all 8 DfT Customer Promises	Achieved all 8 DfT Customer Promises
	Improved efficiency and capability		
3	**Value for money** Complete achievement of the £80.7 million three year target of efficiency savings for 2008-2011 by saving £36.2 million in 2010-11	Exceeded £46 million	Exceeded £32.7 million
4	**Finance** Deliver financial performance agreed with DfT to at least balance income against expenditure for the 2010-11 year end accounts	Exceeded £24 million surplus	Exceeded £35.1 million surplus
	Contributing to wider government objectives		
5	**Collecting tax for the Government** Collect over £5 billion of VED (net of refunds) and through enforcement action exceed £100 million in additional VED collected for the period 2008-11	Achieved £5.8 billion and through enforcement action collected £109.5 million	Exceeded £5.7 billion and through enforcement action collected over £45.5million
6	**Improving insurance compliance** Introduce Continuous Insurance Enforcement (CIE) and have started to issue Insurance Advisory letters by 31 March 2011	Not Achieved Insurance Advisory letters will not now be issued until June 2011	n/a

DVLA change programme 2010-11

DVLA has in the past maintained its driver and vehicle registers by processing large numbers of paper transactions delivered by post and moved around by hand. Much of the legislation and regulation that provides the framework for these transactions embedded the necessity for paper transactions into law.

The modernisation agenda has been underway for some time and DVLA has led the way across government in e-services and volume transaction handling. The transformation is still far from complete and the external environment has changed significantly over the last two years to make our response more urgent. The table below details our achievements and progress during 2010-11.

Performance against our change programme 2010-11	Milestone date	Performance 2010-11
Product improvements		
Payment Card Data Security Standards To ensure that the Agency's systems are compliant with the Payment Card Industry Data Security Standards (PCI-DSS) as mandated by the Payment Card Industry Council (MasterCard/Visa)	March 2011	Ongoing EVL delivery date now agreed with Industry to be December 2011
EU 3rd Directive A feasibility study that will assess the impact of the European Union 3rd Directive on driving licences, develop options to meet the requirements of the Directive and identify a preferred option that balances customer service, cost and ease of implementation	March 2011	Achieved Strategic Business Case drafted
Driver licence check support A feasibility study to produce an outline business case which will define options to introduce Chip and PIN to provide adequate security for driver register enquiries, delivering significant revenue generating transactions and reduction of effort for businesses seeking to comply with legislation. Proof of concept for cross-Government credentials strategy and Access to Public Services	March 2011	Achieved Strategic Business Case under development
Continuous Insurance Enforcement 1. Publicity Campaigns 2. Implementation of CIE (Enforcement Release)	March 2011	1. Ongoing new date May 2011 2. Achieved
European Community Whole Vehicle Type Approval/CO_2 To develop changes to current processes to support the introduction of the Individual Approval Scheme which replaces the single vehicle Approval (N1 & M1 vehicles) from 29 April 2009 and expansion to further vehicle types over the next five years	2010-11	Achieved
Certificate of Professional Competence (CPC) Phase2 Deliver significant enhancements to the existing CPC systems that support Driving Standards Agency training regulations	August 2010	Achieved
Budget changes (2008) Phase 3 Delivery of the final set of Budget changes introduced, for implementation in April 2010	April 2010	Achieved
Northern Ireland Vehicle Information System (NIVIS) Conduct a feasibility study to identify and define options to relocate Northern Ireland vehicles register systems to Swansea and live running of the re-platformed systems, a precursor to providing online services for NI vehicle keepers	March 2011	Achieved
Government Banking Services Mandatory transition from the Office Paymaster General (OPG) bank accounts to GBS. Live running from April 2010, providing full cross-Government readiness confirmed	April 2010	Achieved

Internal efficiency and accuracy		
DLO Enhancement and Capability Review (DECR) To increase the first time success of the range of online driver transactions already introduced, reducing second stage applications, enquiries and paper transactions	September 2010	Achieved
Automated casework Conduct a Feasibility Study to identify the benefits of utilising the Oracle Business process Manager (OBPM) software along with improved business processes for casework in the Drivers Medical area The study will also project the derived costs/benefits across Drivers Medical casework and DVLA operational processes in order to inform the investment decision for a subsequent delivery project	April 2010	Achieved Wider casework issues now also under consideration before delivery option decided
Driving licence renewal web channel A feasibility study to develop and define options for an online channel, which will allow transactions requiring a new photograph (obtainable from Identity and Passport Service or UK Borders Agency) to be undertaken online	May 2010	Achieved New systems live March 2011
NI Electronic Services Identify options for delivering electronic vehicle services (Electronic Vehicle Licensing and full bar coding application to the Post Office®) to Northern Ireland. This builds on the NIVIS relocation and the preferred option will be taken forward in year	2010-11	Achieved Delivery project commenced April 2011
E services Phase 2 A feasibility study to develop options for an online service for the renewal of Drivers Medical short period driving licences. The options will investigate automating data capture on complex customer facing transactions to minimise manual transaction handling and casework	2010-11	Study on hold New review date February 2012
Information Capture Data Archiving+ Decrease the cost of data capture by centralising and streamlining scanning and increase the percentage that is Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR) processed	2010-11	Ongoing new date end of 2011
Project & Programme Management Tool The Agency will implement a software tool within the Project and Programme Management (PPM) community that aims to improve project and programme management processes, reducing administrative costs and making management information more effective	October 2010	Achieved
CISx Increase the number of driver's first applications that can go through the single stage route by using Department of Work and Pensions CISx system to authenticate identity. Through collection of the National Insurance number from customer or CISx, provide a conduit for 'tell us once' notifications – bereavement and address changes as signalled in smarter government, but also changes of name if pursued in the future	October 2010	Ongoing Date reworked in consultation with DWP – will go live June 2011
Ten year renewals 2 Commence new service at the Post Office® counters	April 2010	Achieved Roll-out completed 752 branches in November
Extend the service to 750 Post Office® branches	September 2010	752 branches
MOT Technical improvements and upgrade to current Local Service Network MoT certificate replacement system	September 2010	Achieved

Information communication technology maintenance

Weblogic upgrade Ensuring that the Weblogic product set (i.e. Weblogic portal (WLP), Weblogic Integration (WLI) and Weblogic Server Platforms) will be using supported components going forward	2010-11	Ongoing new date Summer 2011
Technical refresh Rolling programme ensuring the hardware, software and applications remain security compliant and within technical support	2010-11	Achieved (all 10-11 activities complete)
VSS Stack refresh A large-scale technical refresh to support main vehicles system software	2010-11	Ongoing new date end of 2011
CASP Stack refresh Large scale hardware and software technical refresh and upgrade to internal casework system	2010-11	Ongoing new date end of 2012
Security (portfolio) Security enhancements and fixes to known or discovered security issues and risks (i.e. security software upgrades and new security related installations)	2010-11	Achieved (all 10-11 activities complete)
Service improvement portfolio Technical enhancements (i.e. single points of failure removal and new improved scanning solutions)	2010-11	Achieved (all 10-11 activities complete)
Desktop upgrade (inc Electronic Point of Sale) Upgrade and replacement of all DVLA out of support desktops and Local Services Network Point of Sale system (inc. peripherals)	2010-11	Ongoing new date Summer 2011
Migration out of Salford Removal of remaining web services from Fujitsu's Salford Data Centre	2010-11	Achieved phase1 (Ongoing date end 2012)
Data centres Migration of services from over subscribed and ageing Swansea data centres to new purpose-built facilities	November 2010	Achieved
Test environment 3 Complete the delivery of new test environments to support vehicles programme. The first application will be for Continuous Insurance Enforcement testing	2010-11	Achieved
Technical vulnerability reduction Delivering a revised network and application architecture to improve technical security controls– including migration of key web services to the new architecture	2010-11	Achieved
Identity and access management Process and technical security based upgrades	December 2010	Achieved
Migration of print Migration of the remaining documents composed by Fujitsu on the mainframe to in-house system	2010-11	On hold

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Customer service

In 2010-11 the Agency met all of 8 DfT Customer Promises. The promises are supported by 19 Customer Service Measures and the 'Customer Service Excellence' standard.

DfT Customer Promises

1	Provide a full response to enquiries quickly.
2	Provide a full response to complaints quickly.
3	Respond to telephone calls promptly and endeavour to resolve all enquiries at the first call.
4	Use reliable and accurate methods to measure customer satisfaction on a regular basis.
5	Provide our customers with information that is clear, accurate and complete. If we do not have all the information required, we will advise customers when they will receive the information they requested.
6	Ensure that our staff are polite and friendly to customers at all times and understand our customer needs.
7	Make information about the full range of services we provide available to our customers and potential customers, including how and when people can contact us, how our services are run and who is in charge.
8	Make particular efforts to identify hard to reach and disadvantaged groups and individuals and have developed our services in response to their specific needs. We have policies and procedures that support the right of all customers to expect excellent levels of service.

Customer service measures

	Target 2010-11	Result
Driving Licences		
To deliver a first driving licence within 8 working days	98%	✔
To deliver a vocational licence within 8 working days	98%	✔
To deliver an ordinary driving licence within 10 working days	97%	✔
To deliver a digital tachograph renewal in 14 working days	98%	✔
Medical investigations		
To conclude a simple case within 15 working days	88%	✔
To conclude a complex case (one that requires further medical investigation) within 90 working days	85%	✔
Vehicle registration document		
To deliver a first registration document, excluding cherished transfers, within 14 working days	95%	✔
To deliver a change on a registration certificate within 14 working days	95%	✔
To deliver a registration document from an application (notifying changes to the registration certificate) within 30 working days	95%	✔
Vehicle Excise Duty refunds		
To deliver a refund due within 30 working days	95%	✔
Customer service		
To answer call demand	95%	✔
To deliver quality of service in the Contact Centre	85%	✔
To answer an email within 3 working days	95%	✔
Keep average local office queuing time to no more than 15 minutes	15:00	✔
To deliver a Cherished Transfer within 7 working days	95%	✔
Customer complaints		
To acknowledge a complaint within 1 working day	100%	✔
To maintain or improve on last year's performance sending a substantive response within 10 working days	98%	✔
MP correspondence		
To acknowledge correspondence within 1 working day	98%	✔
To maintain or improve on last year's performance sending a substantive response within 7 working days	98%	✔
Overall target	To achieve 17 of 19	Exceeded 19 of 19

New customer services

New service at the Post Office® – in April 2010, the Agency introduced a new electronic service at Post Office® branches where drivers' photographs are captured and sent to the Agency by a secure electronic link. The service is now available at 752 Post Office® branches. For more information visit **http://www.direct.gov.uk/en/Motoring/DriverLicensing/NeedANewOrUpdatedLicence/DG_078070?pro=TYR_PO_Spotlight**

Late reminder letters – in April 2010 a new late reminder letter was introduced to those who failed to tax their vehicle or make a Statutory Off Road Notification (SORN). The introduction of the late reminder letters has resulted in an increase in compliance and a reduction in enforcement volumes. The Agency continues to encourage customers to tax or make a SORN online.

Vehicle tax refund – to improve customer service, the Agency, in conjunction with Direct.gov have introduced an online form for customers to apply for a vehicle tax refund. In addition, other changes have reduced the number of refund related calls answered at our Contact Centre by 70 per cent. For more information visit **http://www.direct.gov.uk/en/Motoring/OwningAVehicle/HowToTaxYourVehicle/DG 10012526**

Driver licence fees – in February 2011, a new fees page for driver transactions linked to our driver forms was placed on Directgov. This will help customers easily find out the correct fee for the type of application. This will also reduce avoidable calls to our Contact Centre. For more information visit **http://www.direct.gov.uk/en/Motoring/DriverLicensing/NeedANewOrUpdatedLicence/DG_4022089**

Electronic driver entitlement checking service – the Agency rolled out its electronic driver entitlement checking service which now serves 18 commercial customers. We received over 800,000 enquires in 2010-11 and expect to reach around 1.6 million in 2011-12.

Improvements to online service to the motor industry – in 2010 the Agency introduced a new indemnity calculation for motor industry customers that use the Automated First Registration and Licensing system. This resulted in a £20 million reduction in financial exposure on the motor industry.

New office opens in Leeds – in April 2010, DVLA's replacement office opened in Leeds. The office provides customers with improved facilities. Customer friendly online facilities now complement a new face to face bespoke customer management area enhancing customer service.

Wider government objectives

New European driver medical standards

In February 2011 DVLA launched a consultation on proposals for changes to the driver licensing standards on eyesight, epilepsy and diabetes. Views are being sought on the implementation of new European minimum standards for drivers. Responses will be analysed and will inform an impact assessment on options for change for consideration by department ministers.

Identity fraud

During 2010-11 the Agency continued to work in partnership with other government departments and the Police to help reduce and detect identity fraud. DVLA also supported the National Fraud Authority and National Fraud Intelligence Bureau in their development of a strategic threat assessment for identity fraud.

Government Gateway

The Government Gateway is a website used to register for online government services. It is an important part of the Government's strategy of delivering 'joined up' government, enabling people to communicate and make transactions from a single point of entry.

DVLA's Driving Licence Check (DLC) is a web service accessed through the Government Gateway. The service is currently accessed by the Government Car and Despatch Agency, Transport for London and Bristol, Manchester, Essex, North Devon and Doncaster Councils.

Interest in the service has been received from 200 local authorities. In 2010-11 over 2,417 enquiries were received through the web service with a forecast of 20,000 for 2011-12.

Driver qualification card

DSA and DVLA successfully delivered a new database of European lorry, bus and coach drivers who apply for a driver qualification card. For more information visit **http://www.direct.gov.uk/en/Motoring/Drivingforaliving/DG_186131**

Sustainable development

During 2010-11 DVLA had some notable successes, including accreditation for the ninth consecutive year to our environmental system ISO14001. We were also successful in attaining certification for all 39 of our local offices to this standard.

DVLA has introduced a sustainable risk assessment process to our procurement procedure. This ensures the impact on society, the economy and the environment are fully considered before we procure goods or services.

Carbon for travel

During the year, we reduced the amount of CO_2 produced from our business road travel by -47.3 per cent, from our baseline year in 2005-06. This equates to approximately 1.5 million less miles per year travelled in 2010-11 compared to 2005-06. Travel is an essential element of our activity as the Agency has a distributed network to maintain, a large number of data audits to undertake and prosecutions in courts right across the country.

Waste reduction and recycling

The Agency is continually reviewing its practice and has a number of projects underway to review the resources consumed. For example, we are looking at refining the numbers and types of envelopes and leaflets currently being used.

Waste minimisation has been a focus for environmental management this year. We have worked with the Welsh Assembly Government 'Waste Minimisation' campaign to find new and innovative ways to reduce waste.

This year we have recycled a total of 74 per cent of our total waste against a target of 40 per cent. We have introduced food recycling in our staff restaurant at Swansea and have also started to recycle some of our waste plastic. We are continuing to look at ways to make further improvements.

Energy

In 2010-11 the Agency carried out a full review of its energy use across the estate including our combined heat and power plant. We have implemented many of these improvements. These include rationalising space in our main office which has allowed a separate building to be vacated, the removal of powered floor fans from Data Centres, closing some of our offices between Christmas and New Year and improving the insulation of the main building roof.

The Agency is aware that the total energy consumption is increasing. We believe this is due to our increased use of IT to improve the efficiency of our operational business. We are considering all the actions as recommended by Greening Government Information Communication Technology and are looking at detailed analysis of the IT power usage to establish how to minimise the energy use. During the past year we have also researched the feasibility of producing our own energy from renewable sources, and are working towards the right solution.

See Appendix 3 for commentary on sustainability performance.

2.1 Business analysis

This section of the report comments on trends in transaction volumes, managing finances through 2010-11 and our responsibility for collecting Vehicle Excise Duty (VED).

New customers

First applications for a driving licence have remained broadly stable at a little over one million a year for at least the past four financial years. By contrast first vehicle registrations fell by 564,205 (18.7 per cent) in 2008-09 compared to the previous year as a result of the recession. The following year saw a stabilisation/rally largely as a result of the scrappage scheme but volumes have largely remained at subdued levels. In 2010-11, without the scrappage scheme and with a full year impact of the recession, the number was the lowest DVLA has experienced over the last 15 years by a further 60,551. This means the transaction volume fall from the 2007-08 high was 20.7 per cent.

Driver first applications & vehicle first registrations 2008-09 to 2010-11

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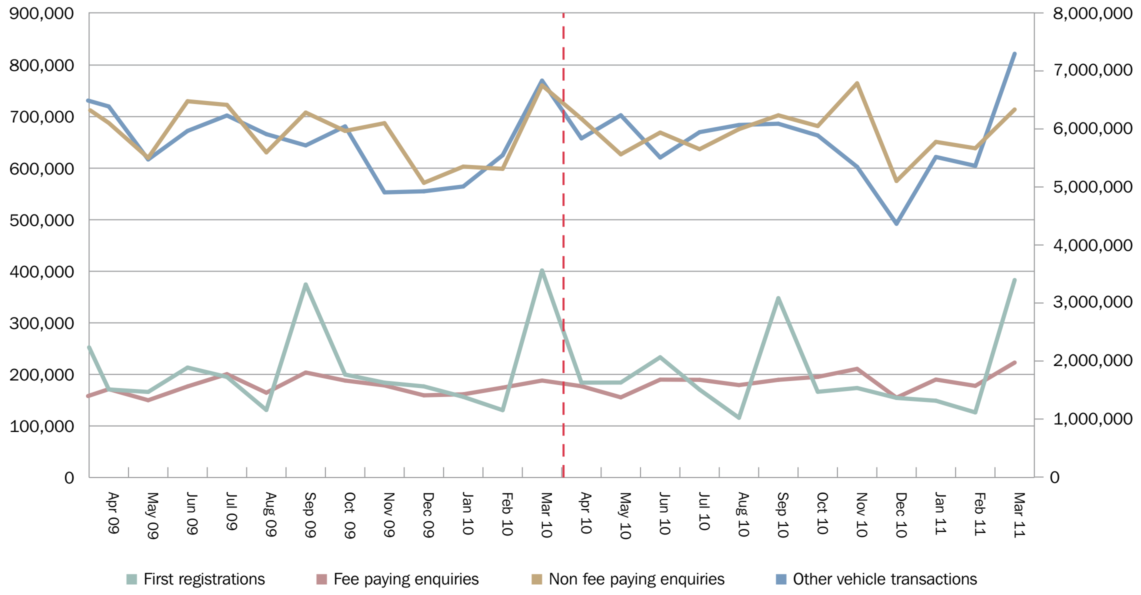
Vehicle transactions

Total vehicle transactions were down by 1,872,228 (2.2 per cent) over the past two years. Electronic Vehicle Licensing (EVL) hit a peak of 227,610 transactions on the single day of 28 February 2011. In total for the year, there were 21,712,162 EVL transactions, (51.3 per cent of all vehicle licensing transactions) an increase of 1,567,291 (7.8 per cent) compared to 2009-10.

Vehicle transactions 2009-10 to 2010-11

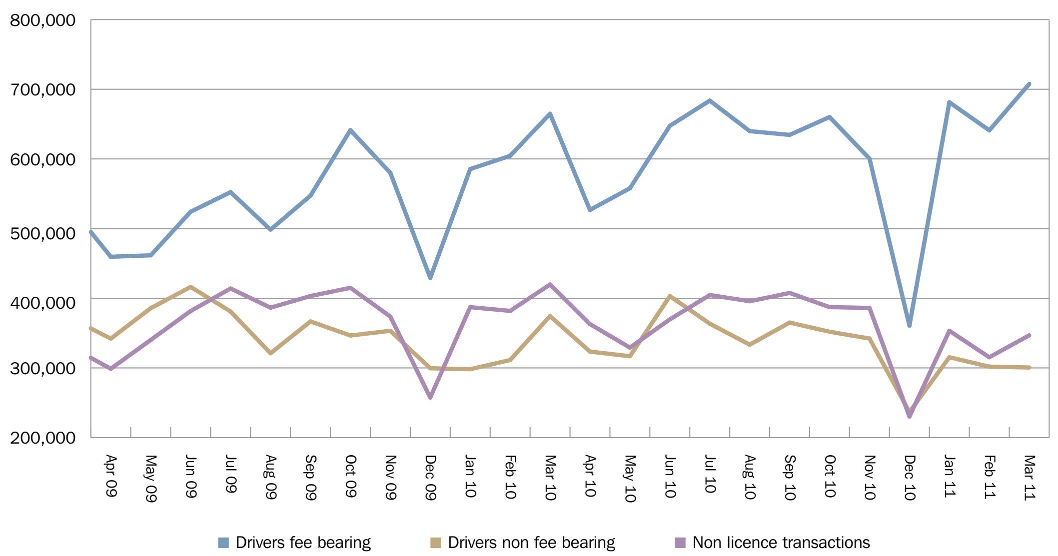


Note: Left hand axis for First Registration & Fee Paying Enquiries – Right hand axis for other transactions

Driver transactions

Total driver transactions have risen by 144,100 (10.2 per cent) over the past two years. During the year, the Agency handled 2,112,321 ten year renewal applications, up 646,793 (44.1 per cent) compared to the previous year.

Driver transactions 2009-10 to 2010-11



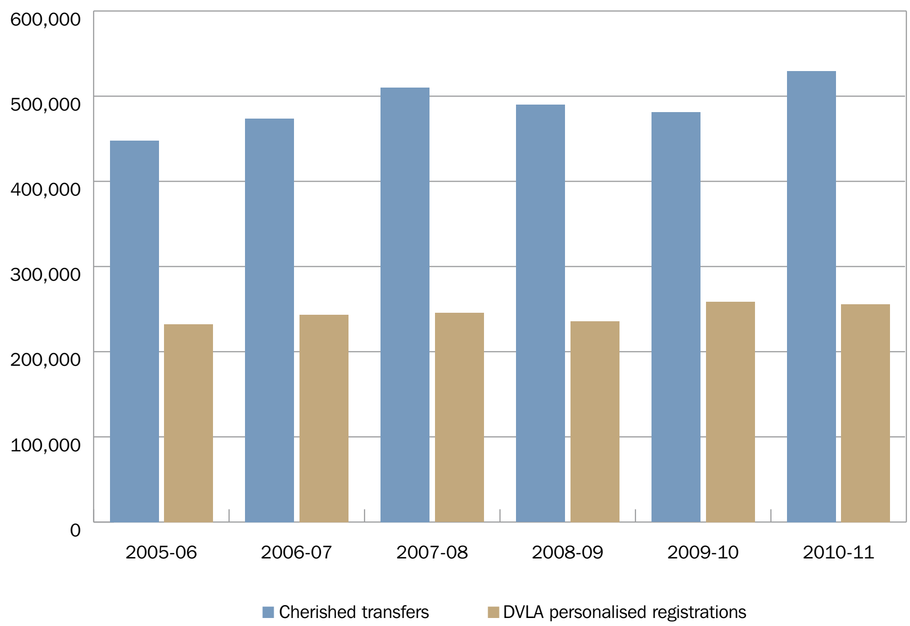
Enforcement cases

During the year 98,236 vehicles were wheel clamped because the registered keeper had not paid Vehicle Excise Duty (VED) or for a similar infringement of the law, 1,332 (1.3 per cent) down on the previous year. 105,775 vehicle owners paid their VED as a result of enforcement action by the Agency, 28,141 (21 per cent) down compared to the previous year. 279,668 continuous registration enforcement cases were completed during the year, 104,214 (27.1 per cent) down.

Premium transactions

Transactions that more than cover cost, with the surplus handed over to Treasury have remained stable or shown modest increases during 2010-11.

Cherished transfers & DVLA personalised registration volumes 2005-06 to 2010-11



Medical cases

During 2010-11 the Agency closed 719,027 medical cases. This was an increase of 75,934 (11.8 per cent) compared to the previous year. Of the licensing decisions required, 247,094 full licences and 196,531 short period licences were issued. 30,993 were either refused or revoked.

Customer enquiries

In 2010-11 DVLA's call centre received 23,490,294 enquiries and local offices dealt with 2,428,727 visits to conduct business across the counter. The average time customers spent waiting in a local office was 9 minutes 54 seconds, a 19 second (2.8 per cent) improvement compared to the previous year.

Accuracy of the record

DVLA's key purpose is to keep complete, accurate registers of drivers and vehicles and make them as accessible and as flexible as possible to those who have the rights to use them.

In 2010-11 the Agency carried out an accuracy survey with customers which showed that 97.8 per cent of vehicle keepers can be traced from details held on the vehicle record.

Better regulation

Reducing the amount of regulation is a government priority. Where regulation is shown to be necessary, it should be proportionate to the problem addressed, accountable to Parliament, consistent in impact, transparent to the public and targeted at the heart of the problem. The Government have introduced the requirement that for every domestic regulation introduced that places costs or burdens on business, another regulation will be repealed.

During the year two pieces of legislation that the Agency is responsible for relating to sale of DVLA personalised registrations have been opened up to consultation over ways that the burden on business might be reduced.

2.2 Finances and efficiency

DVLA collected £5,782 million of Vehicle Excise Duty (VED) during the year, net of £201 million refunds processed. In addition, the Agency collected £31 million net (£49 million gross fines collectable net of cost of commercial debt collectors employed less £18 million written off) of fine and penalty income through enforcement action. The net incomes from these activities are delivered into the Consolidated Fund and are accounted for in the DVLA Trust Statement for 2010-11. The costs of undertaking these activities are reflected in the DVLA Business Accounts.

Our Business Plan for 2010-11 aimed for a surplus of £1.7 million. However, whilst exceeding our income expectations by just £5 million (0.7 per cent) the Agency instigated a number of additional cost reductions which contributed to the Agency's final outturn of a surplus of £24 million.

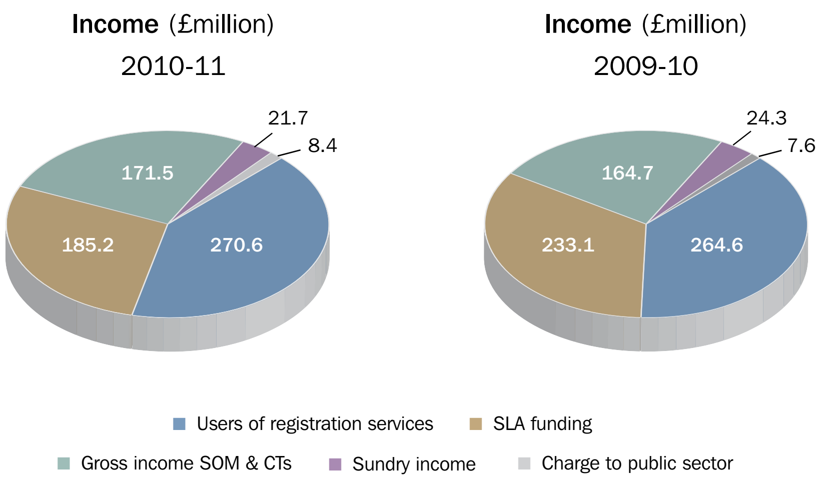
Prompt payment

In line with government policy, the Agency is committed to pay 80 per cent of invoices within five days and 98 per cent within 30 days. In 2010-11 we exceeded our targets achieving 86.9 per cent in five days and 99.7 per cent within 30 days.

Income

The Agency receives income from a number of sources, as reflected in the Business Accounts:

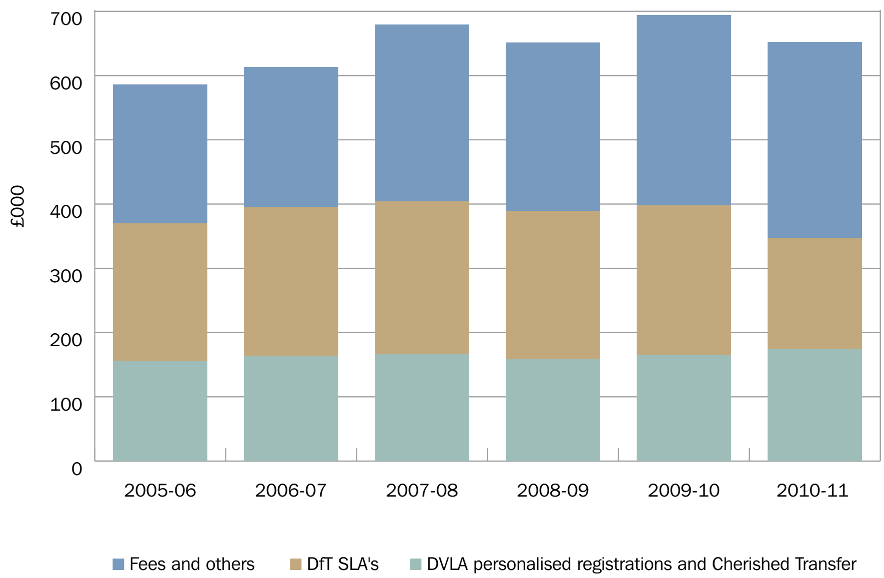
- fees and charges for vehicle registration and driver licensing
- proceeds of sale and transfer of DVLA personalised registrations
- from the Department for Transport (DfT) through Service Level Agreements (SLAs) for collecting and enforcing VED, based on the number of transactions processed and the unit costs through the different channels used, together with investment for development of related systems and restructuring costs
- from other public sector organisations for use of our services and facilities
- commercial charges that not only fully cover costs but also make a contribution to the cost of systems upkeep and replacement, reducing the burden on statutory fee payers.



The total gross income for the year from operations is £657.4 million. This is £36.9 million below that for 2009-10 but is £5 million above the forecast in our Business Plan.

The reduction in income from 2009-10 to 2010-11 is mainly due to a lower volume of vehicle registrations and the reduction in funding which was received directly from DfT. In overall terms, the long-term trend for income can be summarised in the following annual total income chart.

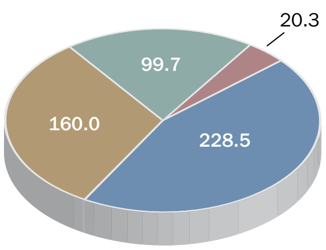
Annual total income



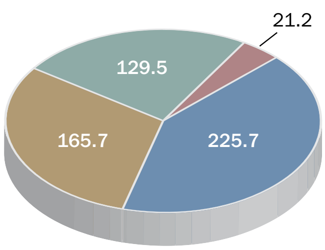
Expenditure

The Agency's total operating expenditure has dropped from £542.1 million in 2009-10, to £508.5 million in 2010-11 a reduction of 6.2 per cent in cash terms but with business volumes generally at around the same levels. The only significant fall in business as a result of the general economic slowdown was in the number of vehicle first registrations as noted earlier in the analysis of new customers. The split of operating expenditure is given in the following operating expenditure charts.

Operating expenditure (£million) 2010-11



Operating expenditure (£million) 2009-10



Outsourced · Staff costs · Internal operations · Net depreciation

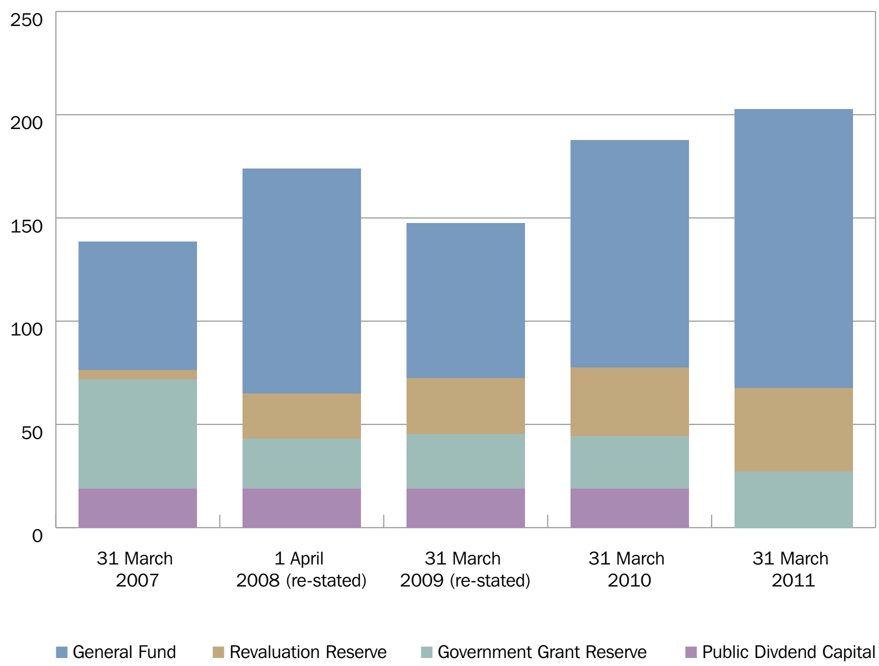
Although the cost of work undertaken by others on our behalf has increased in monetary terms, compared with 2009-10, the increases lie in only two areas. Work undertaken by the Post Office® in 2010-11 contained an increased volume of work, (the result of ten year renewals of photocard driving licences) and medical reports provided by medical practitioners, again due to an increase in the volume of business conducted.

Agency capital and reserves

The Agency has a major programme of investment in Information Communication Technology (ICT) with capital investment funded from the General Fund (retained surpluses). The Trading Fund status was revoked on 1 April 2011 and the Public Dividend Capital was repaid in March 2011 in anticipation of this revocation, being replaced by a loan from DfT which is shown under current and non-current liabilities on the Business Accounts Statement of financial position.

The capital and reserves table below shows how reserves have moved over the past five years.

Capital and reserves



The Government Grant Reserve has built up over recent years to match the value of assets funded directly through the VED SLAs for tax collection/enforcement. The release of the Government Grant Reserve each year offsets the deprecation charge on the corresponding assets. From 2011-12 the option to offset the grant against the cost of the asset has been withdrawn under the Government's Finance Reporting Manual (FReM) and therefore, the balance on the Government Grant Reserve will be transferred to the General Fund.

Asset management strategy

The major assets for DVLA are its ICT systems and its accommodation assets. The DVLA Strategic Agenda sets out the future intent for these assets in terms of future support and business direction.

The core DVLA estate in Swansea is freehold, sited on Crown land. Buildings have been refurbished over the last five years through a Private Finance Initiative (PFI) contract with Telereal Trillium, which also covers the facilities management services throughout all our offices. The local office network is in leased accommodation or in shared premises with other government organisations occupied through memorandum of terms of occupation agreements. There are no additional properties or surplus estates receipts envisaged, although DVLA anticipates reducing its leased accommodation costs in the future. The Agency continues to explore sharing arrangements with other government agencies as our leases near expiry and in keeping with the drive to share resources and deliver efficiency across government. In recent years, DVLA has already vacated two leased buildings in Swansea through use of the PFI arrangements, as a result of staff reductions, non-territorial working and HQ refurbishment.

Efficiency

For the three-year period ending 31 March 2011, the Agency was set an efficiency target of £80.7 million, split between the three financial years £19.5 million, £25 million and £36.2 million respectively. Overall the Agency has exceeded its three-year target by realising £98.2 million of efficiencies in total and achieved the individual annual targets culminating in £46 million for financial year 2010-11. It also received a 'green rating' from the National Audit Office indicating robust evidence of measurement in year one.

Initiative	Delivery plan 2010-11	Outturn 2010-11
	£m	£m
Productivity	27.2	36.0
Service Transformation	4.7	6.0
Re-focussed Compliance	2.0	2.0
Estates Framework	2.3	2.0
Total efficiency gains	**36.2**	**46.0**

As part of the wider government agenda, the Agency set itself in its Strategic Agenda a challenging target starting in April 2011, of achieving £100 million in cost savings by 2015 compared to the Business Plan previously agreed for 2010-11. To date £21.3 million of efficiencies have been identified that contribute to this target. The position will be reported in future commentaries on a cumulative basis.

The cost saving initiatives put in place by the Agency in the year arose from a thorough review of our expenditure. Initiatives were instigated directly by the Agency as well as working with the Cabinet Office to examine the cost of services provided by major contractors to HM Government. We have been successful in reducing publicity and marketing costs by 88.5 per cent with negligible effect on VED collection rates. A review of postal costs has enabled us to switch from first class postage to second class for those transactions where the need for next day delivery was not justifiable. In addition, we have reviewed the use of inserts sent out with such documents as the vehicle registration certificate, the driving licence and the VED reminder letters. By the end of 2010-11 we had reduced overall usage of inserts on an ongoing basis by 96 million with an annualised ongoing saving over £2 million.

DVLA has developed a new no cost/low cost marketing strategy in response to the Government's decision to reduce all government advertising and marketing spend. This presents a unique opportunity for the base-lining of previous marketing effectiveness and to establish new 'value marketing' in the public sector. The new strategy ensures targets for the range of DVLA products are achieved despite the absence of 'paid for' advertising. We continue to monitor VED compliance rates very closely to ensure that this shift in approach does not significantly impact our collection, as each 1 per cent movement equates to more than £50 million lost revenue.

Government Banking Service (GBS)

The Agency successfully switched all of our banking systems from the Office of the Paymaster General to the new banking arrangements with the Royal Bank of Scotland Group and Citicorp that are integral to the services provided by GBS. This provides more electronic banking services to DVLA, reduces our costs and we have contributed towards the overall economies of scale, with our £70-80 million banking transactions, to maximise benefits for the new pan-Government contract.

DVLA personalised registrations

In 2010-11 the Agency achieved an income of £83.3 million through its personalised registration scheme. This exceeded the forecast of £77.8 million for the year by £5.5 million.

The '11' series launch is credited with a significant proportion of this impact. In 2011-12 the Agency intends to retain this level of income with the release of previously issued registration numbers, some of which could carry significant individual value.

CONTENTS

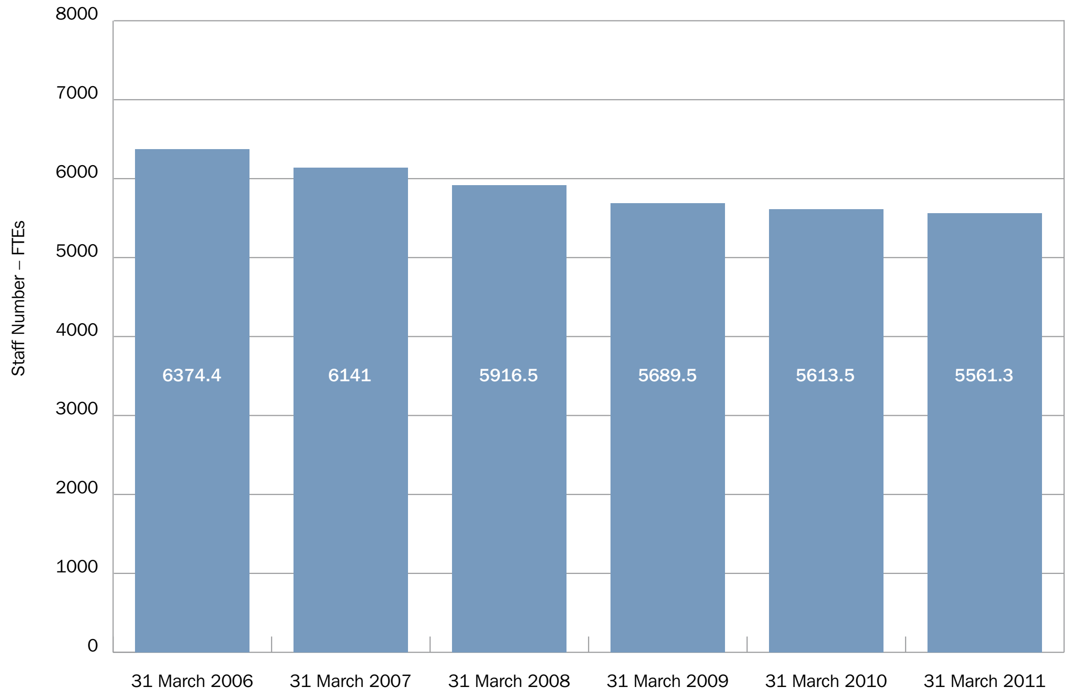
Workforce

We continue to reduce our staff numbers through productivity, automation and compliance initiatives, whilst at the same time absorbing additional work, for example increased telephone calls resulting from the issue of the 'last chance' licensing reminders. The impact in 2010-11 of this additional work was around 35 Full Time Equivalents (FTE), but at the same time we have cut down on overtime expenditure.

The table below shows the overall reduction in the number of FTE staff in place at the end of each of the last six financial years. In 2010-11 DVLA continued to reduce its dependency on contract/agency staff so that any reductions in staff numbers reflect genuine productivity gains and streamlining processes rather than substitution.

Since May 2010, there has been no new recruitment into the Agency other than into positions where for security or urgent business need there is no real alternative and then only with the express approval of DfT.

Workforce at each year end



Sick absence

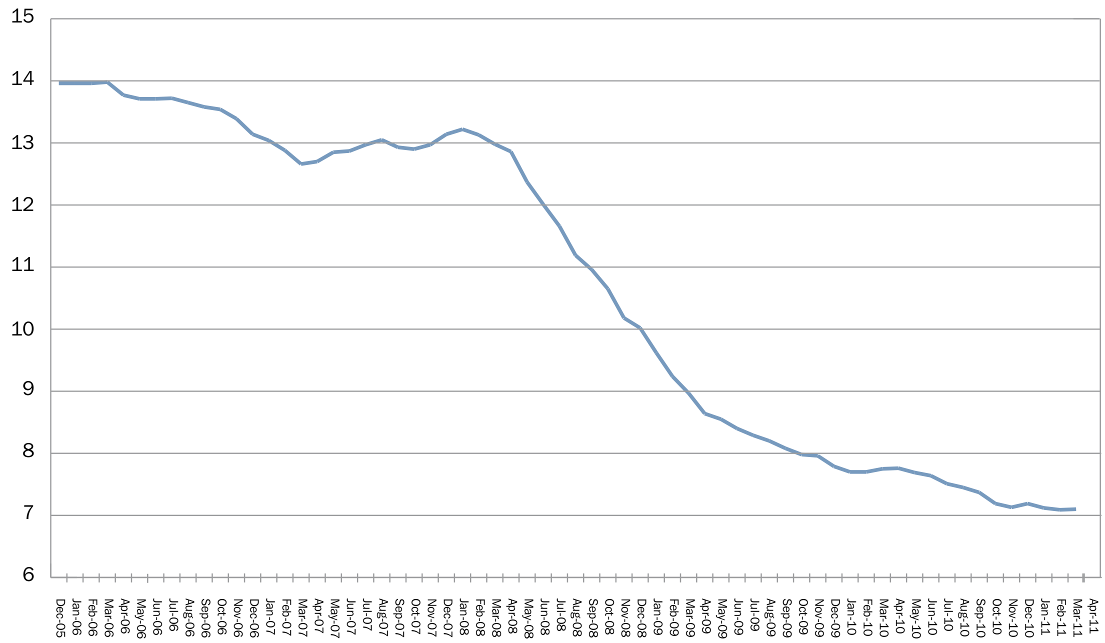
The Agency reached an unacceptable high during 2005, averaging 14 days per person and costing £10.3 million. Absence clearly needed to be addressed and improving wellbeing and staff engagement were considered key to achieving efficiency and increasing productivity. The Agency prioritised its response by developing strategic approaches to:

- continuously improve against stretch targets for levels of sickness absence
- develop a fully engaged, inclusive workforce.

This work has delivered excellent results with sick absence rates almost halved at a current (annual) average of 7.12 days. The Agency has benefited by having more than 200 additional staff in work each day compared to 2005 and this has significantly contributed to efficiency gains for the year.

Sick absences rolling total (DVLA inclusive of SSC)

Average working days lost per employee



Health and safety

A dedicated health and safety team provide training as well as conducting an 18 month rolling programme of inspections. The table below picks out a selection of courses provided.

Health and safety training	Number of participants	
Course title	2010-11	2009-10
Health and safety for managers	201	16
First aid at work	58	8
First aid at work refresher	30	26
Emergency aiders	26	15

The inspection programme is up-to-date. Health and safety was audited internally and judged acceptable.

Accountability

2010-11	Parliamentary question	Ministerial reply	Reply to Member of Parliament	Chief Exec reply	Official reply	Reply to complaint
Total	92	544	1,544	1,203	1,337	3,087
Late	3 (3.2%)	8 (1.5%)	5(0.3%)	n/a	n/a	12 (0.4%)

Disability

DVLA equality policies promote and support diversity and equal opportunity. The Agency has been re-accredited with the 'Two Ticks Positive about Disabled People' symbol in recognition of its actions to support disabled people in the workplace.

The Agency carried out a disability survey in 2010 to confirm and focus the steps the Agency makes to help customers and staff work on an equal basis. In 2010 a new internal diversity intranet site was set up to make it easier for staff to locate information. 'Diversity week' was supported by staff networking groups and diversity champions.

Staff engagement

During the year the Agency continued to communicate regularly with staff and consult with the PCS trade union in respect of its members. Quarterly meetings are held with the Employee Representative Group which consists of staff from across the Agency. These meetings provide staff with the opportunity to air their views on matters affecting them and the Agency. In response to an invitation to staff, over 300 ideas have been put forward as part of the Safeguarding our Money campaign to reduce costs and increase efficiency.

DVLA's annual engagement survey showed an increase of positive responses to 59 per cent.

Next Generation

DVLA has completed the restructure of its HR function in line with the DfT 'Next Generation' HR initiative. The Agency is also playing an active role in learning and development, resourcing and policy expert services across the civil service.

During 2010-11, DfT implemented a centralised model for all resourcing activities, with the new DfT resourcing group located at DVLA's main Swansea offices. The Agency contributed to the standardisation of the Department's recruitment and selection processes to support this model.

In addition we have:

- transferred learning and development provision management to the Highways Agency
- transferred HR policy development and maintenance to the Department for Work and Pensions
- successfully multi-skilled over 400 staff throughout the Agency to increase their skills and confidence in HR. This has enabled a huge amount of cross working within central operations.

Procurement and contracts

Negotiate/extend existing contracts to deliver greater value and effectiveness

The Efficiency Reform Group within the Cabinet Office have targeted certain categories of spend. This will maximise the potential to exploit economies of scale as part of the Government's buying power. DVLA has extended some of its contracts to fall in with the new Government contracts. Examples of contracts that fall into this category are office stationery and various printing contracts such as forms and vehicle excise licences.

As part of this agenda, DVLA are acting as lead body for some of these Government frameworks, such as Card consumables and Merchant Aquiring.

In response to the Government Spending Challenge, in 2010-11 the Agency held its first two supplier forums followed up by individual meetings to further explore opportunities. The results were both informative and encouraging in that all the suppliers involved agreed that the forums have been extremely positive and that they could help DVLA achieve greater efficiencies through greater joint working.

Information Technology (IT) outsourced contract

The contract for IT and transformation services with IBM/Fujitsu was extended to 2015 in November 2009. As part of the renegotiation, some services are now provided at a lower cost. In 2010-11 savings were £17.3 million. Discussions led by the Cabinet Office with key government suppliers achieved additional savings in respect of DVLA in 2010-11 of £11.5 million and £5 million from IBM and Fujitsu respectively (£0.3 million above target). Other savings include the roll-out of the driver licence ten year renewal at the Post Office® and the revised post office agreement.

Post Office® Limited

During 2010-11 752 Post Office® branches began providing services of image capture and detail changes for photocard driving licences.

Private Finance Initiative contract with Telereal Trillium

During 2010-11 Telereal Trillium completed the refurbishment of the Swansea estate.

Medium outsourced contracts

The Agency has worked closely with DfT and the Cabinet Office to ensure that a consistent approach has been taken for category management function. For example, DVLA now take the lead for office supplies.

DVLA is the largest purchaser across government for a number of specific services, for example, merchant acquirer services and the provision of blank polycarbonate cards (which we use for driving licences) and wheelclamping activities. The Agency initiated procurements for these three categories in 2010-11 and will sign new contracts in 2011-12. For the first two, we are working with other government agencies and departments to leverage our economic scale to provide them with access to these services and deliver joint cost savings.

Contractual terms and conditions

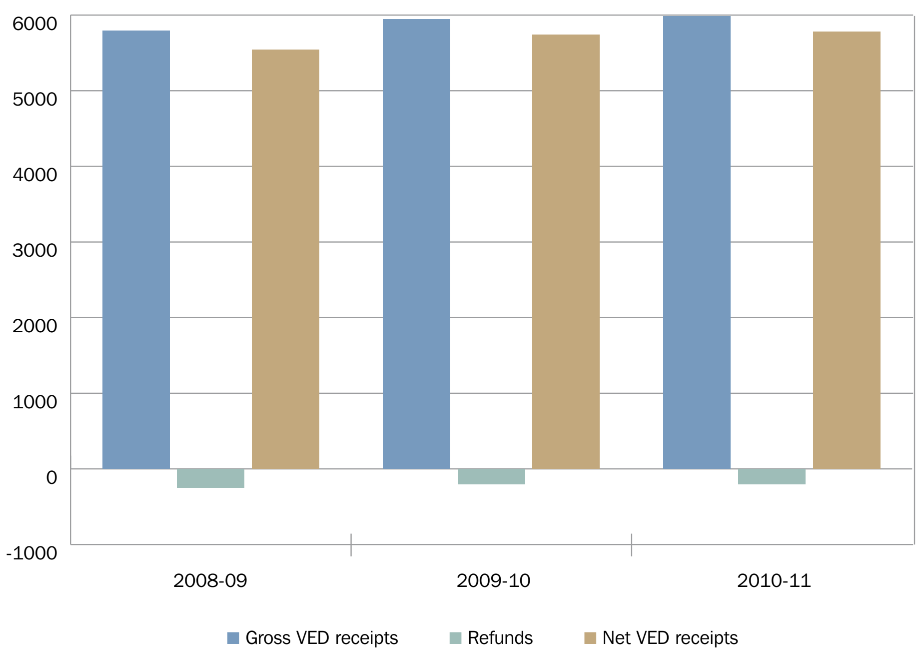
The contractual commitment within DVLA terms and conditions stipulates a 30 day payment term except for those elements of electronic equipment that require commissioning where payment depends on successful acceptance testing. The Agency paid its suppliers in an average of 3.4 days of receipt of goods or service during 2010-11 (2009-10: 9.2).

2.3 VED collection and enforcement

Collection

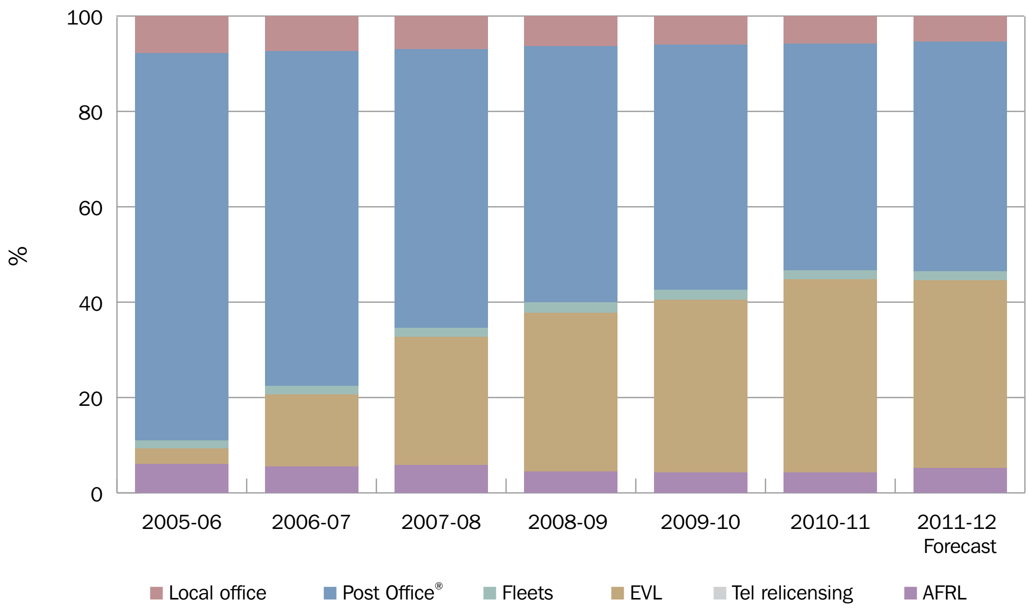
VED receipts in 2010-11 amounted to £5,782 million.

Vehicle Excise Duty collected



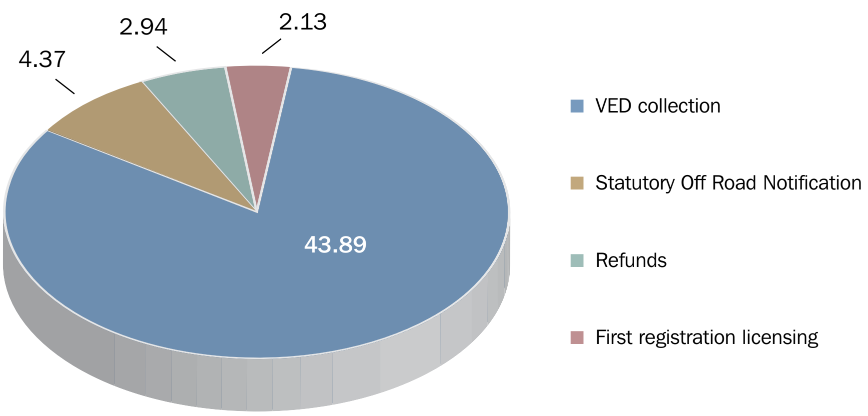
Electronic Vehicle Licensing (EVL) transactions have continued to increase in 2010-11. Take up is based upon the number of EVL transactions compared to the volume of V11 reminders issued. The Automated First Registration and Licensing transaction continues to be undertaken (89 per cent of all new licensing) through the e-channel.

Vehicle Excise Duty by channel



The key transaction categories included in the VED Service Level Agreement accumulate to a total of 53.33 million transactions.

Transaction volumes (£million)



Cost of collection

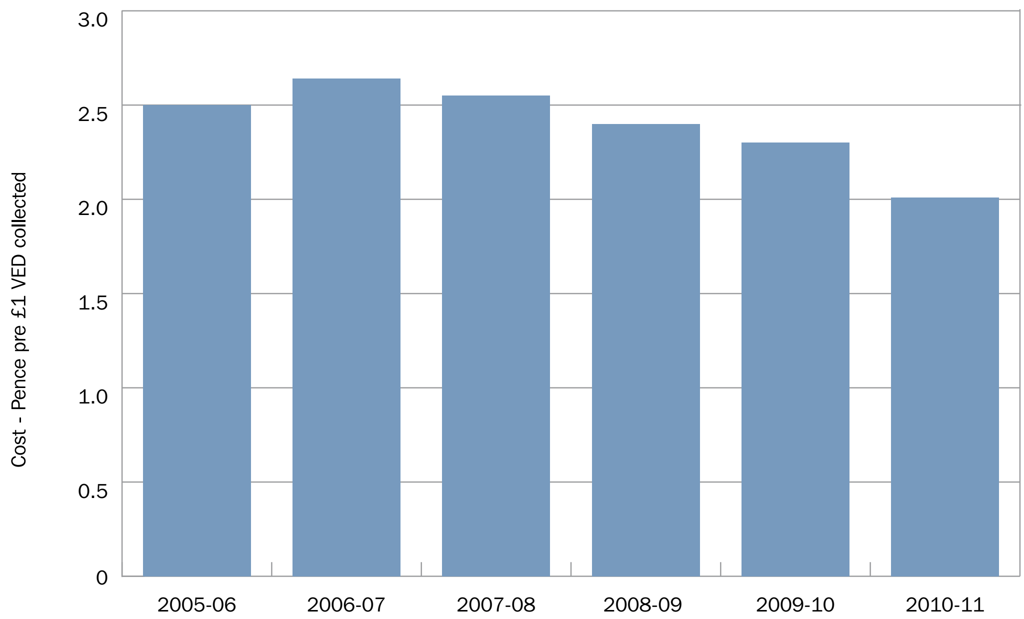
The costs of collection are spread over 53.3 million transactions, up from 52.5 million in 2009-10. The costs are funded directly through an activity based Service Level Agreement with DfT and the amount of funding is agreed by HM Treasury through a tripartite governance arrangement (the VED Governance Committee).

The costs of Vehicle Excise Duty (VED) collection in total were £115.6 million (against a budget of £126.9 million), comprising direct revenue expenditure of £111.1 million and capital expenditure of £4.5 million towards VED system changes. The capital contributions were credited to the Government Grant Reserve in the accounts.

DVLA has continued to deliver significant cost reductions through channel migration for VED collection, especially when the public sector deflator is taken into account. This has been possible through channel shift to electronic services.

In terms of costs of collection (pence per £1VED collected) bearing in mind that Statutory Off Road Notification and refund costs are also included, as are costs of issuing 'nil value' tax discs for exempted categories of vehicle keepers (mainly disabled keepers or cars initially registered before 1973, **see accounts for details**), the profile in cash terms without adjusting for inflation is shown in the Unit Cost of Vehicle Excise Duty Collection table below.

Unit cost of Vehicle Excise Duty collection



Enforcement

National statistics following the 2010 roadside survey estimated that the amount of revenue lost through VED evasion raised slightly from 0.6 per cent in 2009 to 0.9 per cent in 2010-11. It was estimated that £46 million was lost through evasion in 2010-11, compared with £32 million in 2009-10. However, some of this revenue will already have been recovered through DVLA enforcement. Despite the slight increase in evasion estimates, this year's results show the second-highest compliance rate ever achieved and DVLA continues to look at its enforcement strategy to keep evasion low.

Following a successful trial, the Agency received Ministerial approval to issue warning letters to keepers of unlicensed vehicles spotted by its static Automatic Number Plate Reader cameras. The letter gives keepers of unlicensed vehicles a warning that their vehicle had been seen unlicensed on the road and gives them a chance to become compliant.

In April 2010 DVLA introduced a late reminder letter to keepers of vehicles that had been unlicensed for two weeks. The letter is a final push to compliance before enforcement action commences. The reminder letters have resulted in approximately £7 million in extra VED being collected and have also reduced the amount of Continuous Registration (CR) penalties the Agency issue by over a third (or 25,000) per month.

Wheelclamping

Over 113,500 vehicles were clamped and/or removed in 2010-11, 98,000 of these by DVLA's national contractor NSL Services Group. Local authorities and Police forces throughout Great Britain enforced the remainder.

Debt collection

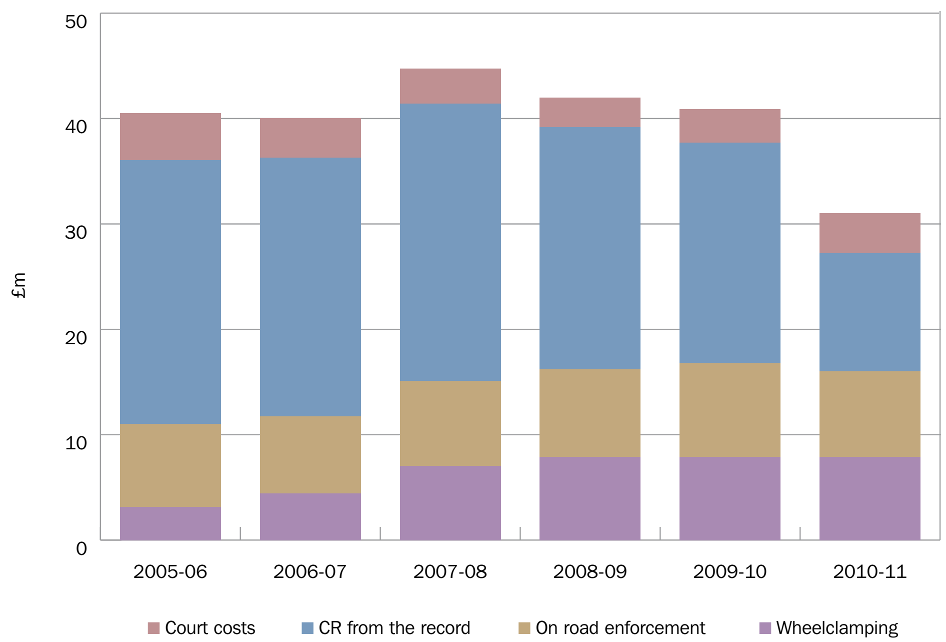
DVLA's debt collection agents have continued to exceed their contractual targets for 2010-11, collecting £8.4 million in unpaid Continous Registration (CR) penalties.

Over 1.5 million unpaid CR cases have been passed to debt collectors since the contract started in 2008, raising £20.1million.

Continuous Insurance Enforcement (CIE)

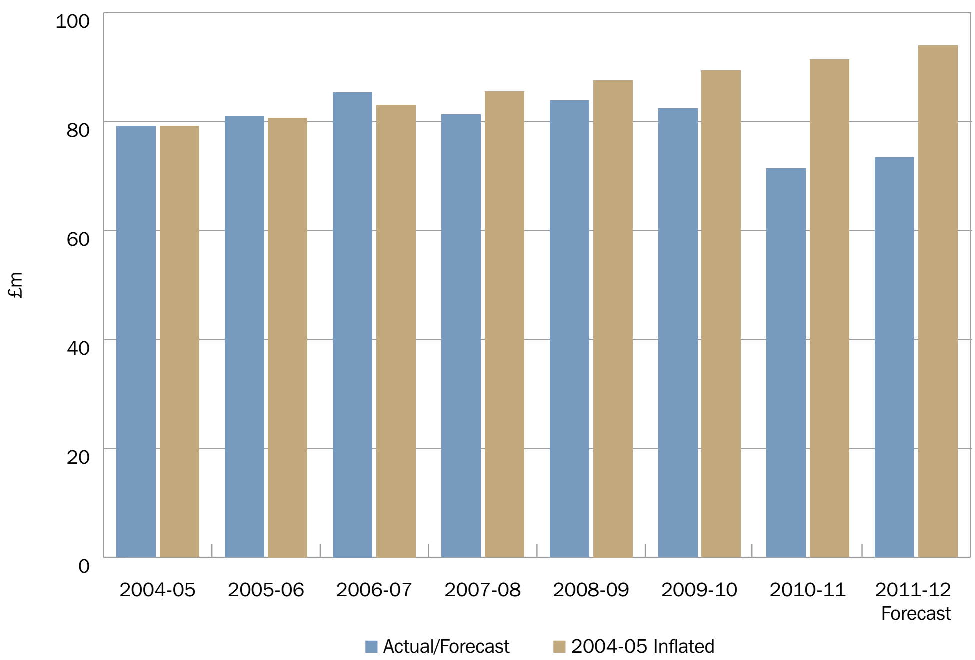
CIE business systems were delivered a month early in February 2011. Because of delays in the legislative processes, the Agency had to delay the first issue of insurance advisory letters from the planned date of March 2011 and it is expected that the first letter will be issued in June 2011. For more information visit
www.direct.gov.uk/en/Motoring/OwningAVehicle/Motorinsurance/DG_186696

Enforcement income (net of write offs)



The costs of enforcement for 2010-11 were £71.4 million against the budget of £74.7 million. This reduction has included such items as marketing and publicity as noted earlier but with no significant impact on the amount of VED collected. Compared to the deflation adjusted costs in 2004-05 the actual costs each year are analysed in the table below showing a 22 per cent real time reduction over five years.

Costs of Vehicle Excise Duty enforcement actual vs. inflated 2004-05 baseline



The enforcement forecast for 2011-12, includes the retention of court costs awarded and CIE costs, which were not included in previous years as these were counted as project costs.

Policy determination

During 2010-11 the DVLA received Ministerial direction that its enforcement strategy should be revised to re-align the dates of wheelclamping action and late licensing penalties. Work is progressing to delay wheel clamping action against unlicensed vehicles until two months after expiry of the licence, whilst bringing forward late licensing penalties from the two-month period to six weeks.

Remuneration policy

The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

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

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

The review body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at **www.ome.uk.com**

Service contracts

Civil Service appointments are made in accordance with the Civil Service Commissioner's Recruitment Principles, which requires appointments to be based on fair and open competition but also includes the circumstances when appointments may otherwise be made. Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The standard period of notice to be given by Directors is three months.

Salary and pension entitlements

The remuneration and pension interests of the Chief Executive and Directors are set out on pages 40 to 43.

The Senior Civil Servant annual pay award is determined by performance, with no award made to unsatisfactory performers. Bonuses are awarded to no more than 75 per cent of staff. They are made to reward in-year performance in relation to agreed objectives, or short-term personal contribution to wider organisational objectives.

Salary

Salary includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the Agency and recorded in these accounts.

Performance bonus

Performance is assessed annually for Directors through the appraisal processes managed by DfT and entitlement to performance enhancements or bonuses established in comparison across the DfT family through the Departmental evaluation committee, chaired by the Permanent Secretary. The Directors did not receive any non-cash benefits during the current or prior year.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the pension increase legislation. New entrants after

1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

Cash Equivalent Transfer Values (CETV)

CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Remuneration of the Executive Board Members – audited

	2010-11		2009-10	
	Salary (£000)	Performance Bonus (£000)	Salary (£000)	Performance Bonus (£000)
Chief Executive				
Noel Shanahan (to May 2010)	10-15 (105-110 full year equivalent)	5-10	105-110	10-15
Simon Tse (from May 2010); (Chief Operating Officer to May 2010)	90-95	5-10	85-90	5-10
Executive Board Members				
David L Evans – Corporate Affairs (from August 2009)	80-85	5-10	50-55 (75-80 full year equivalent)	0-5
Paul Evans – Chief Information Officer	90-95	15-20	95-100	–
Ieuan Griffiths – Finance & Strategy	90-95	5-10	90-95	5-10
Richard Kitchen – Policy & External Communications (to August 2009)	–	–	25-30 (85-90 full year equivalent)	5-10
Judith Whitaker – Chief Operating Officer (from May 2010); HR & Estates (to May 2010)	80-85	0-5	75-80	5-10
Eddie March – HR & Estates (from May 2010)	60-65	0-5	55-60	0-5

Bonuses relate to those paid in 2010-11. The bonus to be paid in 2011-12 is yet to be determined. There were no benefits in kind.

None of the exit package costs disclosed in Note 3 relate to Executive Board members.

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Remuneration of the Chief Executive – audited

	2010-11		2009-10	
	Salary (£000)	**Performance Bonus (£000)**	Salary (£000)	Performance Bonus (£000)
Noel Shanahan (to May 2010)				
Salary	**11**	**10**	106	12
Pension Contributions	**3**	**–**	39	–
	14	**10**	145	12
Simon Tse (to May 2010)				
Salary	**94**	**7**	–	–
Pension Contributions	**34**	**–**	–	–
	128	**7**	–	–

Remuneration of the Non-Executive Board Members – audited

	2010-11	2009-10
	(£000)	(£000)
Michael Brooks	**20-25**	5-10
Jim Knox	**20-25**	10-15
John Burdett (to 31 December 2010)	**–**	20-25
Baljit Dhillon (to 31 December 2010)	**–**	5-10

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Pension Benefits of the Executive Board Members – audited

	Real increase in pension and related lump sum at age 60 during year	Total accrued pension at age 60 and lump sum (LS)	Cash Equivalent Transfer Values (CETV)		Employee contributions and transfers in during year	Real increase in CETV as funded by employer in year
	2010-11	2010-11	2010-11	2009-10	2010-11	2010-11
	£000	£000	£000	£000 (re-stated)	£000	£000
Noel Shanahan	0-2.5	5-10	129	126	0	2
Simon Tse	2.5-5.0	20-25	206	172	3	22
David L Evans	0-2.5 plus 1.0-1.5 lump sum	20-25 plus 65-70 lump sum	328	296	1	4
Paul Evans	0-2.5	2.5-5.0	52	26	3	22
Ieuan Griffiths	0-2.5 plus 1.5-2.0 decrease in lump sum	35-40 plus 55-60 lump sum	756	682	14	4
Judith Whitaker	0-2.5	35-40	311	269	3	16
Eddie March	0-2.5	2.5-5.0	49	34	2	10

The actuarial factors used to calculate CETV were changed in 2010-11. The CETV figures at 31 March 2010 and 31 March 2011 have both been calculated using the new factors, for consistency. The CETV at 31 March 2010 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Simon Tse
Accounting Officer and Chief Executive DVLA
22 June 2011

4.1 Summary of accounts

The Agency accounts for 2010-11 are made up of the Business Accounts and the Trust Statement. The production of the Trust Statement was introduced in the 2010-11 Government Financial Reporting Manual and is required for revenue collected by the Agency that is due to the Consolidated Fund. The Trust Statement incorporates the previously produced Vehicle Excise Duty (VED) Account and also brings to account VED enforcement income from fines and penalties. As a result of the above additional disclosure requirements, both the Statements of financial position for the Business Accounts and the Trust Statement contain the restated opening balances as at 1 April 2009.

In our continued drive for improved transparency we have this year taken the opportunity in the Business Accounts to revise the classification of our operating costs which are now disclosed in the following categories – outsourced services, service delivery, accommodation, staffing and other with additional analysis within these categories.

The comparative figures for 2009-10 have been represented to ensure comparability with 2010-11.

Other significant changes to the Business Accounts that have taken place during the year are:

- to ensure improved governance of the Agency's fixed assets a review of its capitalisation policy has been undertaken and implementation of a threshold of £5,000 introduced from 1 April 2010 with the write off of all assets with a net book value of less than £5,000, the view of management being that these assets had come to the end of their useful life. The amount written off in 2010-11 relating to these assets was £426,000
- The Public Dividend Capital of £19 million was repaid in preparation for the revocation of the Agency's Trading Fund status on 1 April 2011. To maintain the working capital of the Agency in 2011-12 this has been replaced by a loan from the Department for Transport.

Looking at the financial performance, the Agency Business Accounts produced a surplus of £24 million for the year ending 31 March 2011 resulting in a total taxpayers' equity balance of £202 million, of which the General Fund amounts to £134 million. The changes from Business Plan forecast to outturn and between 2009-10 and 2010-11 have been discussed in the Management Commentary.

4.2 Statement of the Agency and Accounting Officer's responsibilities

Business Accounts

Under the Government Trading Funds Act 1973, HM Treasury has directed the Driver and Vehicle Licensing Agency (DVLA) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in taxpayers' equity, for the financial year.

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

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

The Accounting Officer for the Agency, is appointed by HM Treasury. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DVLA's assets, are set out in Managing Public Money.
www.hm-treasury.gov.uk/psr_mpm_index.htm

Trust Statement

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards have been followed
- disclose and explain any material departures in the Trust Statement.

The HM Treasury appointed Accounting Officer is also responsible for the fair and efficient administration of the VED regime including the assessment, collection and proper allocation of VED revenue.

4.3 Statement on Internal Control

Scope of responsibilities

As Accounting Officer for DVLA, I have responsibility for maintaining a sound system of internal control that supports the achievement of DVLA policies, aims and objectives, whilst safeguarding public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. As Accounting Officer of a Trading Fund, I am directly appointed by HM Treasury, though ultimately responsible to the Secretary of State for Transport.

DVLA is sponsored through the Motoring Services Directorate of the Department for Transport (DfT), previously the Motoring and Freight Services Group. Our sponsoring directorate acts across Driving Standards Agency, Vehicle and Operator Services Agency, Vehicle Certification Agency and Government Car and Despatch Agency in addition to DVLA, so not only manages performance but also co-ordinates direction and strategy as a Group. The sponsoring Director General (DG) has responsibilities delegated from the DfT Permanent Secretary. The DG is supported in terms of agency sponsorship advice and management by the Motoring Services Board, upon which I sit together with four other Agency Chief Executives and sponsor representatives.

DVLA is responsible for providing driver licensing services in Great Britain and the registration of vehicles and collection of Vehicle Excise Duty (VED) throughout the UK. The DG and I regularly meet Ministers to discuss progress, performance and key risks.

Driver licensing in Northern Ireland is a devolved power and is undertaken by a separate Executive Agency, the Driver and Vehicle Agency (DVA), sponsored by the Department of the Environment in Northern Ireland. However, responsibility for licensing and registering of vehicles and collection of VED in Northern Ireland lies directly with the DfT Secretary of State - functions discharged by DVA, through DVLA managed Service Level Agreements.

Purpose of internal control systems

The Agency's 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 a continuing process designed to identify and prioritise the risks to the achievement of DVLA and Department for Transport (DfT) policies, aims and objectives, the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. There is no objective to eliminate all error and fraud with complete certainty as this would not be a cost-effective aim.

The system of internal control has been in place in the Agency for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance relating to corporate governance and management of risk.

Risk management approach and capacity to handle risk

I have appointed the five Executive Directors of the Agency and two independent Non-Executive Directors to an Executive Board (EB) that I chair, to assist with management of DVLA. The EB meets formally each month to review performance, including the identification of management actions to address the key operational issues the strategic direction and plans of the Agency, including oversight of the Agency's change agenda.

The Non-Executive Directors also exert their influence through the Audit Committee, in collaboration with an additional member nominated by the Department for Transport (DfT). The Committee is chaired by one of the Non-executive Directors and meets as a minimum, on a quarterly basis. I, the DVLA Director of Finance and Strategy and a representative of our sponsor directorate attend these Audit Committee meetings as observers.

Our sponsor directorate helps ensure that sufficient priority is afforded to operational delivery, progress towards Business Plan targets and management of risks to achievement through formal quarterly sponsorship meetings with myself and the EB.

Guidance to all staff on risk management is available on the DVLA internal website for comment, contribution and information. This includes a summary of our current corporate and directorate risk registers. The risk policies and processes are supported and maintained by Corporate Risk Management Services, the manager of which is responsible for advising on corporate risk management and the escalation of risks from the risk and control framework to the EB and, where relevant, to DfT.

The EB provides guidance to managers on how to respond to risks they have identified by way of a risk appetite profile. This is refreshed at least annually and is linked to the appetite expressed by DfT. Risk Officers and directors meet monthly to discuss their individual directorate risks, together with monitoring the actions on risks escalated to the DVLA corporate risk register for which the individual members are responsible. The EB discusses high level corporate risks each month, concentrating on progress with the actions to avoid and mitigate the key risks. All risks have mitigating plans in place with responsibility for delivery assigned to individuals. All corporate risks are allocated to specific EB members.

The Agency maintains risk registers at each level in the organisation, including:

Programmes and projects. All programmes and projects are overseen by Programme Boards and the Agency Change Office. Processes and registers conform to HM Treasury Orange Book and to guidelines on the Management of Risk set by the Office of Government Commerce (OGC), which is now part of the Cabinet Office's Efficiency Review Group. All have regularly reviewed risk registers.

Operational Activities. Each directorate maintains a directorate risk register. These are all reviewed and updated at least monthly.

Corporate. The corporate risk register contains risks with an exposure higher than that defined by the Agency's risk appetite profile. Risks include those escalated from both directorate and programme registers, those added by EB members as a result of individual concerns or following the horizon scanning exercise which occurs twice each year, and those raised by any individual directly with the Agency Risk Manager.

External Escalation. Risks with the potential to impact on the other motoring agencies or the wider DfT, because of scale or nature, are escalated through our sponsor directorate.

A formal self assessment process resulting in individual stewardship reports is required for all Directors and Senior Managers in which they acknowledge their accountability and assess the quality of risk management under their span of control. This is consolidated and provides input to the formal annual statement, assured by our Audit Committee that I provide to DfT at year end.

All contracts with key delivery partners and commercial companies that access our data – with formal customer consent – incorporate direct access provisions for us to review controls in operation and for us to monitor their compliance with control levels specified in the access protocols.

Internal Audit review the Agency's governance and risk management processes annually, drawing on external practices to inform their assessment of their maturity and effectiveness.

Controls over change projects

Progress monitoring and risk identification are managed by the Agency Change Office (ACO). During the year, an Office of Government Commerce (OGC) led health check confirmed that the ACO was meeting the necessary requirements. Executive Board members are appointed with sponsorship responsibility for programmes/critical projects and I hold them personally responsible for delivery.

All proposed projects are subjected to initial review and, if successful, are allocated to an operational area or, if significant, passed to the allocated programme for further study and exploration. Technical aspects are reviewed by the Technical Review Team, stakeholder support sought, design principles established and an outline business case developed if appropriate. The business case is approved and funding prioritised initially through the DVLA governance process. Further approvals are then required for all but the smallest projects through the sponsor directorate Investment Appraisal Board to confirm funding and strategic compliance, Cabinet Office for Information Communication Technology (ICT) developments, the Department for Transport (DfT) approvals routes for all elements relating to contract staff, legal input and any public awareness expenditure required. During 2010-11, further steps were introduced at both DfT and Cabinet Office levels to re-review all projects over £5 million as part of the ICT Moratorium introduced.

All significant projects, in both DVLA and Driver and Vehicle Agency (DVA) (as DVLA's agent in delivering its Vehicles responsibilities in Northern Ireland) are subject to the prescribed OGC and HM Treasury risk assessment process and scoring. They are subject to an appropriate level of independent OGC Gateway™ reviews by high/medium risk reviewers appointed by the OGC at key decision points throughout their project lifecycle. Smaller/low risk projects are peer reviewed by internal reviewers through a similar process.

Financial control

The systems of management control established include the DVLA Finance Committee, which has delegated expenditure responsibilities and provides advice on operational budgets and project affordability to the Executive Board (EB). This is chaired by the Director of Finance and Strategy, and attended by a second EB member.

The budgetary controls are supported by a monthly planning and re-forecasting cycle, monitoring volume and change demand, resource supply and a balancing process, the results of which are reported monthly to the EB for action and forward decisions. This is supplemented quarterly by a full and robust director-led challenge and re-forecasting process, formally reported to EB.

Proposed project based expenditures (both IT and non-IT) have their business cases assessed by the Finance Committee, which either rejects/approves or makes recommendations to the EB depending on the level of expenditure involved. Business cases comply with the Department for Transport Investment Appraisal Framework, through compliance with the 'Green Book' and use of the best practice five-case business model advocated by OGC and HM Treasury.

The Agency Change Office then monitors and tracks programmes through to closure providing the EB, if significant enough, with advice on project and business decisions. This potentially includes cancellation of individual projects if business case changes or risk appraisals (both updated regularly) indicate this to be appropriate. On the rare occasions (twice since 2000) that projects are cancelled prior to successful completion, such projects are fully disclosed in the annual accounts. Tier 1 and 2 projects have their business cases considered and budgets approved, together with monthly progress reporting and monitoring by the Department for Transport and our sponsor directorate.

Shared Services arrangements

Since April 2007 the DVLA Finance, Payroll and HR transactional support functions have been provided by the Department for Transport (DfT) Shared Service Centre (SSC). Responsibility for the governance of the centre and line responsibility for SSC management is directly to the DfT Corporate Group Director General. Each organisation has its own control responsibility and Internal Audit processes for those internal elements of the transaction streams that remain outside the SSC and each Accounting Officer has individual responsibility to ensure that the two sets of controls provide an environment of overall appropriate control for their own organisation.

The DfT Shared Services Director has provided four Assurance Reports during the year on the internal controls operating at the SSC, based primarily on internal risk and control monitoring activities and reporting processes but also upon assurances provided by DfT Internal Audit and other relevant risk/control reports and sources of assurance.

The conclusion of the Shared Services Director is that the system of internal control has delivered effective internal control with a number of exceptions. However, these did not directly impact on the accuracy of transaction handling or the production of financial statements, and the most critical relate to succession planning, the completion of its disaster recovery policy and lack of a system for archiving/disposing of records.

During 2010-11, DVLA redefined the system controls for its “purchase to pay” process in order to maintain effective internal control. DVLA recognises that process efficiency improvements have been achieved by Shared Services during 2010-11 and that delivery of services now generally achieve the standards agreed, so that previous additional controls have now ceased.

Throughout the year, DVLA has continued to ensure that its own controls and processes are operating effectively, with manual checking of data integrity and accuracy where necessary. These factors, combined with SSC assurance reports, ensure that the combination of controls is appropriate and adequate in terms of our overall internal and assurance requirements.

The SSC provides monthly assessments of service levels and issues, discussed with DVLA at formal monitoring meetings. In addition, there are monthly assessments of controls provided to Information Asset Owners as part of the control processes. Approval processes in place for any changes proposed by individual Business Units or SSC ensure that objectives are still delivered and the control implications assessed, agreed and managed.

Value for Money (VfM)

All business changes proposed are examined through appropriate level business case processes. There are benefits realisation plans and monitoring built in to all such developments and direct periodic reporting to Executive Board (EB) for corporate projects. All procurement and contract management complies with European Commission procurement regulations to ensure full and robust competition for services and products from suppliers.

All procurement and contract management activities are managed in line with the Cabinet Office Transparency guidelines and approvals processes, with supplier engagement compliant with European Union and UK Government procurement guidelines. As part of the selection process for new contracts, tender evaluation incorporates whole life costing to ensure that VfM is considered throughout the life of the product/service contract. Contractor performance is pro-actively managed for all key contracts let by the Agency to ensure that quality and service are maintained for the duration of the contract.

The Agency participated in an extensive programme of benchmarking reviews based on Better Quality Services principles during 2010-11 to confirm that a range of the Agency activities, including support functions, are delivered cost effectively.

Data handling, security and information risk

DVLA core functions encompass the management and maintenance of its significant Driver and Vehicle registers, which means responsibility for secure handling and maintenance of two of the largest databases in Government, including data transmission and access control. It undertakes over 120 million transactions each year in respect of these databases. As a result, DVLA is critically focused on data security and complies strictly with legislative release provisions, Data Protection Act and Cabinet Office guidelines.

The Chief Information Officer (CIO) is one of the five directors on the Executive Board and has functional responsibility for operational delivery of all Information Communication Technology services and the infrastructure that underpins our two critical databases. As discussed in the Statement of Internal Control (SIC) 2009-10 and subsequently confirmed through discussions at Audit Committee, the CIO also holds the Senior Information Risk Owner (SIRO) responsibility. The Head of Information Security, who manages the Information Assurance Group (IAG), has a direct line to me as CEO in the event of any conflict or concerns. I feel this is sufficient to mitigate the risk of merged CIO and SIRO functions and the current arrangement is giving a high level of assurance.

DVLA has authority delegated from its parent Department Department for Transport to accredit the Agency's systems. All of our systems, including the DVLA network, are subject to risk assessment and independent review by the DVLA Government Accreditor. Accreditor authorisation is required for all new systems prior to going live and thereafter all systems are subject to a rolling program of accreditation. This responsibility lies within the Information Assurance Group (IAG).

There is a network of Information Asset Owners (IAOs) who have the responsibility for protecting the data sets allocated to them. The data sets are recorded in an information asset table along with the associated risks, and the IAOs have the responsibility for reviewing these risks and how the data is used on a regular basis. This is managed and enforced by IAG. The training of IAOs and the central record of information is the responsibility of IAG, along with defining and monitoring compliance with policies.

Our progress on securing and assuring the use of our data is measured against the Government Information Assurance Maturity model. Last year's assessment was made by Communications and Electronic Security Group (CESG) part of the Government Communications Headquarters (GCHQ). The results of this have been used to develop further our security and data handling processes. The DVLA aim is to achieve level 2 of this model throughout as this meets business requirements, but aspire to reach level 3.

This year's assessment results show we have made significant progress towards both our target level and aspiration of level 3. The focus of work for the coming year will seek to focus on compliance – this confirms that our data is used according to contractual and other arrangements and looks to consolidate a full level 2 assessment.

Compliance With Mandatory Data Handling Review [DHR] Measures		
Weighted	**Level 1**	**Level 2**
Leadership & Governance	96%	96%
Training, Education & Awareness	100%	100%
Information Risk Management (IRM)	99%	No DHR measures
Through – Life Internal Audit Measures	98%	No DHR measures
Assured Information Sharing	93%	No DHR measures
Compliance	100%	No DHR measures

Table: Data Handling Risk Assessment

These results have been audited and confirmed by the Agency's Internal Audit team. We also benefited from an independent KPMG review of the risk and control profile within our Vehicle Excise Duty (VED) systems and processes, commissioned through Department for Work and Pensions as part of a wider Government review, now being rolled out across Government to address financial risks. The work focused particularly upon VED web based transaction processing and found that the process was generally well controlled. We continue to address the four high priority recommendations arising – reporting progress quarterly to the VED Governance committee chaired by the Department for Transport and these link also with the actions required for access security emerging from the CESG review.

Almost all our data transfers have now been migrated from physical media to secure and encrypted electronic channels through our ELISE system and this channel migration will continue until all transfers are electronic. Exchange of personal data by means of encrypted CDs remains our only physical transfer media for a small number of external recipients, but we continue to migrate these, with a view to completion in 2011-12. Information may now only be downloaded onto approved removable storage devices that are encrypted and strictly controlled. These devices are only issued on production of a business case approved by the Head of Information Security or myself.

The DVLA network is accredited to Government security standards and currently a rolling programme of work to maintain standards is in place. All new services go through a comprehensive risk assessment before live operation. These assessments have to be approved prior to go live by the DVLA Government Accreditor who is independent of project delivery. As part of the approval process, risks to the data being processed are formally evaluated and recorded in a risk management accredited document set with the resulting risk assessment score having to meet pre-set criteria prior to going live. Each data element forms part of the data sets that are now owned by an Information Asset Owner.

The layered approach to physical security on all main DVLA sites is now fully operational, with 'hot spots' within the sites having specific security measures to give the most cost effective security according to the evaluated risk. A more recent addition is the use of Automatic Number Plate readers to manage traffic on site and enable early identification of unauthorised vehicles.

During 2010-11, there were six low level data breaches involving specific individual records and these were reported to the Information Commissioner's Office (ICO). There is no suggestion that any of these information breaches could have been used to facilitate financial fraud against customers or other third parties. Whilst we do not have to declare such low level breaches to the Information Commissioner's Office, we do report all breaches in compliance with best practice.

We have instituted comprehensive data handling training and assessment for all staff, who have to achieve a score of at least 80 per cent in the end assessment to meet our mandatory standards. The exercise was completed ahead of schedule in 2010-11 and has contributed to the cultural shift to improve further the control of our data and reduction in security breaches.

The staff within the Information Assurance Group are using the skills framework from the Institute of Information Security Professionals, and during the coming year will be assessed by professional examination against this standard to ensure we continue to drive the professionalism of the team forward. This will be essential in terms of maintaining the current security of DVLA data.

Review of controls effectiveness

As Accounting Officer for DVLA, I have responsibility for reviewing the effectiveness of the system of internal control. My review is primarily informed by the work and stewardship reporting of the executive managers within the Agency responsible for the development and maintenance of the internal control framework. I also draw on and balance the evidence,

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positive and negative, provided by a wide range of specific reviews and governance activity.

Structure of Assurance

The Executive Board (EB) and Audit Committee (see previously) assist in developing and overseeing these assurance processes and the plans to address weaknesses, ensuring continual improvement of the systems remains a priority. These processes apply to all Agency activities and transactions – DVLA Business Accounts and Trust Statement.

A single integrated structure has been established as Corporate Assurance Services to comprise Internal Audit, Programme & Project Assurance and Business Assurance Unit.

These sections work to common standards and disciplines, providing assurance against the three layer integrated assurance model we have adopted within DVLA for internal controls.

Internal Audit. DVLA Internal Audit operates to prescribed Government Internal Audit Standards and provides me with an independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. The Agency's Head of Internal Audit has free access to the DVLA Audit Committee chair and to me as Accounting Officer. Its Audit Plan for the year encompasses all internal controls as well as assurance against contractual commitments and data protocols for those organisations that interact with us.

Programme and project assurance. Programme and project work is assured independently by the Agency's team of skilled resources. These provide assurance to the EB that programmes and projects are being delivered to the highest standards and in accordance with Agency standards.

Business Assurance Unit. This team undertakes efficiency reviews and facilitate benchmarking exercises that contribute to my assurance of value for money delivery. During the year the team has supported an extensive benchmarking study of Corporate Service functions involving almost 80 other public sector organisations. The results have confirmed a number of areas of best practice and highlighted areas of possible further efficiencies. The team is accredited by the Institute of Consulting, formerly the Institute of Business Consulting.

Specific Control Issues – Update from 2009-10 Statement

Theft of Vehicle Registration Stationery (V5Cs). During 2006, DVLA rejected a batch of V5C forms due to incorrect colour printing, returning these to our suppliers as they believed they could overprint to the correct quality. This proved impossible and the supplier sent the forms, as specified in our contract, to a secure third party destruction facility. Forms were stolen during either transit or destruction, and some of the stolen forms were used to provide fraudulent documentation for criminals. We are taking action to enforce our legal right to recover the costs of reissuing all V5C forms in a new format (an activity for 2011-12).

Safeguards against supplier insolvency. We had one instance, early in 2010-11, of potential loss from supplier insolvency, reported in the Statement on Internal Control (SiC) for 2009-10. The subsequent investigation indicated this to be an isolated case of non-compliance with procedures rather than a systemic weakness – although the remaining controls did not compensate, so these have now been significantly strengthened and greater clarity of process accompanied by a higher level of mandatory staff training. Negotiation with administrators and new investors has mitigated the losses down to relatively low levels, to be confirmed in 2011-12.

Driver and Vehicle Agency (DVA) Control Assurance and Vehicles Responsibilities

DVA is subject to internal audit review by the Department for Regional Development (DRD) in Northern Ireland. I draw assurance from the opinion the DRD Head of Internal Audit (HIA) provides to the DVA Agency Accounting Officer. This is overseen by the DVA Audit Committee which is presided over by the chairman of the DVLA Audit Committee. With the Northern Ireland vehicles systems now physically relocated to Swansea and operating from DVLA data centres, the systems operations projects are now largely working directly within the DVLA processes and controls.

Head of Internal Audit (HIA) opinion

The overall opinion I have received from my HIA for 2010-11 is that she can provide acceptable assurance that the DVLA governance, risk management and control arrangements are appropriately defined and found to be working effectively.

In the cases that Internal Audit identified the need for control enhancements, these were not deemed significant in the context of the overall control environment. Where enhancements were proposed, corrective action has been agreed and subsequent delivery has contributed to the overall assurance reported within the SiC.

Simon Tse
Accounting Officer and Chief Executive DVLA
22 June 2011

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

I certify that I have audited the financial statements of Driver and Vehicle Licensing Agency ("the Agency") for the year ended 31 March 2011 under the Government Trading Funds Act 1973. These comprise the Statement of Comprehensive Income and Statement of Changes in Taxpayers' Equity, 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Driver and Vehicle Licensing Agency, Accounting Officer and auditor

As explained more fully in the Statement of the Agency and Accounting Officer's Responsibilities, the Agency and Accounting Officer are 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 the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In addition, 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 conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of Driver and Vehicle Licensing Agency's affairs as at 31 March 2011 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 the Management Commentary included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- 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 Statement on Internal Control 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
29 June 2011

4.5 DVLA Business Account for 2010-11

Statement of comprehensive income for the year ended 31 March 2011

	Note	2010-11 £000	2000-11 £000	2009-10 £000	2009-10 £000
Income from operations					
Income from the public		**472,192**		461,192	
Other operating income (Service Level Agreements)		**185,178**		233,101	
Total income from operations	2		**657,370**		694,293
Expenditure					
Operating costs	4	**(328,125)**		(355,186)	
Staff costs	3	**(160,035)**		(165,661)	
Depreciation, amortisation & impairment	7	**(27,186)**		(26,702)	
Less Government grant release	7	**6,878**		5,490	
Total operating expenditure	2		**(508,468)**		(542,059)
Operating surplus			**148,902**		152,234
Finance income	2 & 5	**319**		301	
Finance costs	2 & 5	**(1,851)**		(3,403)	
Net finance costs			**(1,532)**		(3,102)
Surplus payable to Consolidated Fund	2		**(116,566)**		(108,157)
Dividend payable	6		**(6,840)**		(5,903)
Retained surplus for the year	2		**23,964**		35,072
Other comprehensive income					
Net gain on revaluation of property, plant and equipment	7		**4,409**		4,393
Net gain on revaluation of intangible assets	8		**2,508**		1,775
Other comprehensive income for the year			**6,917**		6,168
Total comprehensive income for the year			**30,881**		41,240

All income and expenditure are derived from continuing operations. Notes forming part of these accounts appear on **pages 59 to 91**.

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Statement of financial position as at 31 March 2011

	Note	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Non-current assets				
Property, plant and equipment	7	**86,054**	87,382	85,104
Intangible assets	8	**95,319**	95,203	87,149
Trade and other receivables due after more than one year	9	**5,139**	8,014	3,833
Total non-current assets		**186,512**	190,599	176,086
Current assets				
Trade and other receivables	9	**63,465**	67,559	58,838
Cash and cash equivalents	10	**65,676**	60,687	50,579
Total current assets		**129,141**	128,246	109,417
Total assets		**315,653**	318,845	285,503
Current liabilities				
Trade and other payables due within one year	11	**(52,836)**	(82,011)	(83,390)
Provisions for liabilities and charges	13	**(2,733)**	(3,223)	(3,141)
Total current liabilities		**(55,569)**	(85,234)	(86,531)
Total assets less current liabilities		**260,084**	233,611	198,972
Non-current liabilities				
Trade and other payables due after more than one year	11	**(49,280)**	(33,793)	(39,938)
Provisions for liabilities and charges	13	**(9,210)**	(12,170)	(11,510)
Total non-current liabilities		**(58,490)**	(45,963)	(51,448)
Net assets		**201,594**	187,648	147,524
Taxpayers' equity				
General fund		**134,118**	110,098	75,026
Revaluation reserve		**40,230**	33,313	27,145
Government grant reserve		**27,246**	25,189	26,305
Public dividend capital	23	**–**	19,048	19,048
Total taxpayers' equity		**201,594**	187,648	147,524

Notes forming part of the accounts appear on **pages 59 to 91**.

Simon Tse
Accounting Officer and Chief Executive DVLA
22 June 2011

Statement of cash flows for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Cash flows from operating activities			
Retained surplus for the year		**23,964**	35,072
Adjustments for non cash items:			
Loss on disposal, depreciation, amortisation & impairment	7	**27,186**	26,702
Government Grant release	7	**(6,878)**	(5,490)
Net financing costs	5	**1,532**	3,102
Decrease/(Increase) in trade and other receivables	9	**6,969**	(12,902)
(Decrease)/increase in trade payables	11	**(30,263)**	499
Auditors remuneration – notional charges	4	**30**	–
Less movements relating to items not passing through the Statement of comprehensive income			
(Use)/creation of provisions	13	**(3,378)**	314
Net cash inflow from operating activities		**19,162**	47,297
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,179)**	(5,660)
Purchase of intangible assets		**(17,153)**	(19,799)
Finance income	5	**319**	301
Proceeds from sale of property, plant and equipment		**5**	–
Net cash outflow from investing activities		**(19,008)**	(25,158)
Cash flows from financing activities			
Government grant received in year		**8,935**	4,374
Finance costs	5	**(1,923)**	(2,975)
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		**(2,177)**	(13,430)
Loan from Department for Transport		**19,048**	–
Repayment of Public Dividend Capital		**(19,048)**	–
Net cash used in financing activities		**4,835**	(12,031)
Net increase in cash and cash equivalents in the period		**4,989**	10,108
Cash and cash equivalents at the beginning of the period	10	**60,687**	50,579
Cash and cash equivalents at the end of the period	10	**65,676**	60,687

Notes forming part of these accounts appear on pages 59 to 91.

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Statement of changes in taxpayers' equity for the year ended 31 March 2011

	General Fund (i)	Revaluation Reserve (ii)	Government Grant Reserve (iii)	Public Dividend Capital (iv)	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2010	110,098	33,313	25,189	19,048	187,648
Surplus for the year 31 March 2011	23,964	–	–	–	23,964
Repayment of Public Dividend Capital	–	–	–	(19,048)	(19,048)
Non cash charge – auditor's remuneration	30	–	–	–	30
Non cash charge – auditor's remuneration in prior year	26	–	–	–	26
Other Comprehensive Income					
Net gain on revaluation of property, plant and equipment	–	4,409	–	–	4,409
Net gain on revaluation of intangible assets	–	2,508	–	–	2,508
Government grant release	–	–	(6,878)	–	(6,878)
Government grant received in the year	–	–	8,935	–	8,935
Total Other Comprehensive Income	–	6,917	2,057	–	8,974
Total Comprehensive Income for 2010-11	24,020	6,917	2,057	(19,048)	13,946
Balance at 31 March 2011	134,118	40,230	27,246	–	201,594

Statement of changes in taxpayers' equity for the year ended 31 March 2010

	General Fund (i)	Revaluation Reserve (ii)	Government Grant Reserve (iii)	Public Dividend Capital (iv)	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2009	75,026	27,145	26,305	19,048	147,524
Surplus for the year 31 March 2010	35,072	–	–	–	35,072
Other Comprehensive Income					
Net gain on revaluation of property, plant and equipment	–	4,393	–	–	4,393
Net gain on revaluation of intangible assets	–	1,775	–	–	1,775
Government grant release	–	–	(5,490)	–	(5,490)
Government grant received in the year	–	–	4,374	–	4,374
Total Other Comprehensive Income	–	6,168	(1,116)	–	5,052
Total Comprehensive Income for 2009-10	35,072	6,168	(1,116)	–	40,124
Balance at 31 March 2010	110,098	33,313	25,189	19,048	187,648

(i) The movement in the General Fund reflects the surplus for the year plus adjustments relating to notional audit fees for 2010-11 and to reflect the change in accounting treatment in 2010-11 of the fees from 2009-10

(ii) The Revaluation Reserve reflects the accumulated revaluation gains relating to non-current assets. The amount of the revaluation reserve that relates to intangible assets at 31 March 2011 is £10.8 million (31 March 2010: £8.3 million)

(iii) The Government Grant Reserve movement reflects funding received from other government bodies in relation to the purchase of non-current assets

(iv) The Public Dividend Capital represents deemed capital when the Agency was set up as Trading Fund. This was repaid in 2010-11 prior to the Agency's Trading Fund status being revoked.

Notes to the accounts

Note 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency's Business Accounts for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

New standards and interpretations adopted early

None

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2011, and have not been applied in preparing these financial statements.

IFRS 7 Financial Instruments Disclosures explains the reason for providing qualitative and quantitative disclosures on risks and the benefits to users of financial statements of being able to link the two. Application of this standard is required for reporting periods beginning on or after 1 January 2011. It is planned that IFRS 7 will be applied initially in 2011-2012. The impact of initial application of IFRS 7 is not expected to be significant.

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 2013. Earlier application is permitted. It is planned that IFRS 9 will be applied initially in 2013-2014. The impact of initial application of IFRS 9 is not expected to be significant.

The 2011-12 FReM has withdrawn the option provided in IAS 20 Accounting for Government Grants to offset grant against the cost of an asset with the result that grant income relating to an asset should be recognised as income as soon as any conditions imposed by the funder have been met. As a result, from 1 April 2011 the Agency will re-classify that portion of Service Level Agreement income that relates to projects in respect of vehicle licensing (previously recognised as government grant) and recognise it as revenue in the Statement of Comprehensive Income. In addition, the result is to remove the funding previously classified as grant in the Government Grant Reserve at 31 March 2011 and apply as income to the General Fund.

The 2011-12 FReM revises the departmental resource accounting boundary to include non-departmental public bodies and other bodies classified to central government by the Office for National Statistics. As a result, from 1 April 2011 the Agency will fall under the Accounting Boundary of the Department for Transport and its accounts will be consolidated with those of the department.

Accounting convention

These financial statements have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets. The financial statements have been prepared in accordance with the revised accounting direction issued by HM Treasury on 22 December 2010. They meet the relevant requirements of the Companies Acts, and of the Statements of Accounting Standards issued and approved by the International Accounting Standards Board. We are not aware of any disclosures or circumstances where these are inappropriate.

The financial statements have been prepared on the going concern basis. The change in the Agency status from Trading Fund to Executive Agency does not affect its ability to remain a going concern.

Operating income

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

Funding for Vehicle Excise Duty collection and enforcement activities is delivered by volume-related Service Level Agreements rather than grants – managed by Department for Transport on behalf of HM Treasury as the tax recipients.

The following major sources of income – DVLA personalised registrations, sale of anonymised data (vehicle and driver) and tachograph fees – all attract output VAT. The majority of DVLA fee-earning transactions are not subject to VAT.

Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised on an accruals basis. Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs are recognised in profit or loss using the effective interest method.

Taxation

The Agency is not liable to pay Corporation Tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the appropriate expenditure heading, or capitalised if it relates to an asset.

Cash and cash equivalents

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

Non-current assets: property, plant and equipment

The Agency revalues its non-current fixed asset portfolio annually at 31 March each financial year in accordance with the requirements of the Financial Reporting Manual. Land and buildings are revalued every five years on an existing use valuation by appointed chartered surveyors. In the years between full valuations of land and buildings an index-linked revaluation is performed.

Plant and machinery, fixtures and fittings, computer equipment, motor vehicles and office equipment are revalued in accordance with price indices published by the Office of National Statistics (MM17 – Price Index Numbers for Current Cost Accounting). The exception to this is the revaluation of the specialised fit-out of buildings, revalued using an index provided by Colliers International, commercial surveyors, commissioned by the Department for Transport to produce a brief report on the movement in land values and property values for the period 1 April 2010 to 31 March 2011.

Surpluses and deficits arising on revaluation are taken to the Revaluation Reserve. Where it is not possible for any such deficit to be offset by previous surpluses in the Revaluation Reserve it is charged to revenue as are permanent diminutions in the value of fixed assets. Ownership of the Agency's assets is vested in the Secretary of State.

The Agency's assets are grouped together for the purposes of capitalisation when there is an interdependency of the assets. The minimum level for capitalisation as an individual non-grouped asset is £5,000. Previously this was £1,000.

Non-current assets: intangible assets

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

The value of the Driver and Vehicle databases, including unallocated vehicle registration marks, cannot be estimated. The DVLA personalised registrations database is a very large store of possible combinations of alpha-numeric digits and is affected by changes in opinion, taste and judgement. As a result, the potential future sales value is not recognised in the Agency's Statement of financial position, as it cannot be reasonably estimated.

Depreciation and amortisation

Depreciation is provided on intangible and tangible non-current assets from the date they are commissioned into operational service, except for computer equipment, which is provided for at the date of purchase. Depreciation is provided on any revaluation from the date of such revaluation, at rates calculated to write off the cost or valuation (less any estimated residual value) of each asset evenly over its expected useful life. The estimated useful lives from new of the main categories of non-current assets are:

Plant and machinery	–	3-10 years
IT equipment	–	3 years
Purchased software	–	up to 10 years
Office equipment	–	5 -10 years
Software licences	–	3 -15 years
Fixtures and fittings	–	5 -10 years
Motor Vehicles	–	5 -10 years

The estimated remaining useful lives of buildings at Morriston on 31 March 2011 are 38 years (A Block) and 23 years (all others) with those at Swansea Vale at 34 years.

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

Leases

The Agency incurs operating lease rentals which are charged to the Statement of comprehensive income on a straight-line basis over the lease term.

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

Early departure costs

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

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

The Agency announced a Voluntary Early Retirement (VER) scheme in 2005-06 and a Flexible Early Retirement (FER) scheme in 2009-10.

The Agency is responsible in full for the liability to former employees who take early retirement under the VER and FER schemes and provides for the liability within the Early Departure Costs provision.

Future payments to be made under the Early Departure and Voluntary Retirement schemes are discounted at the HM Treasury advised rate of 2.9 per cent (2009-10: 1.8 per cent).

Tax officers' pensions and compensation payments

The Agency makes payments in relation to costs of former taxation officers employed by local authorities prior to the creation of the Driver and Vehicle Licensing Centre in 1972. Certain individuals remained within the Local Government Pension Scheme. The Agency contributes to the local authorities concerned towards the annual cost of these pensions. The Agency makes compensation payments to 183 other individuals in respect of loss of emoluments when the Local Taxation Offices closed. A provision has been made for future costs. An actuarial valuation is carried out every three years to determine future liabilities, with the latest valuation effective to 31 March 2013.

Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

Accounting for strategic IT outsourced costs

The strategic IT contractor (IBM) supplies an end-to-end outsourced IT service to DVLA, including the provision of the physical IT equipment. The risks and rewards of ownership of that equipment remain with the contractor and are therefore not capitalised on the DVLA's Statement of financial position. Strategic outsourced costs relating to the equipment are charged to the Statement of comprehensive income in line with the delivery of the service. The financing arrangements mean that a prepayment is set up and discounted over time by 3.5 per cent.

Research and development

We consider our expenditure each year to determine if any is considered as Research and Development. We concluded that nothing falls into this category in the period of this report. Should the Agency incur such costs our accounting policy would be as described.

Expenditure incurred on pure and applied research is treated as an operating charge in the year in which it is incurred. Development expenditure is for the development of specific business systems. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Development costs meeting the criteria for capitalisation are treated as intangible fixed assets and amortised as explained in the intangible non-current asset note. Non-current assets acquired for use in development are depreciated over the expected useful life of the asset.

Private Finance Initiative (PFI) contract for estates

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

- Building Maintenance
- Office Moves
- Cleaning
- Catering and Vending
- Furniture Repair
- Furniture Replacement
- Grounds Maintenance
- Waste Management and Pest Control

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

As part of the contract, Telereal Trillium have undertaken a refurbishment of the Swansea HQ site. Where the work is capital in nature (air conditioning, double-glazing, lifts and specialist cabling), the costs have been capitalised on Independent Assessors sign off for each floor as complete and ready for use. The air conditioning, double-glazing and lifts are depreciated over the length of the PFI contract. The cabling is depreciated over its expected useful life of five years.

A PFI creditor has been created to reflect the work capitalised. This creditor is reduced over the life of the contract as payments are made. In accordance with Government Financial Reporting Manual requirements, the interest element of the unitary charge relating to the assets capitalised has been calculated using the actuarial method.

Financial instruments

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

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

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

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

Non-derivative financial liabilities comprise trade and other payables, obligations under finance leases, obligations under on-balance sheet Private Finance Initiative contract for estates contracts and a loan from the Department for Transport. These are classified as held-to-maturity. The Agency recognises these liabilities initially on the trade date at which the Agency becomes a party to the contractual provisions of the instrument, and derecognises when its contractual obligations are discharged or cancelled or expired. Trade and other payables are recognised initially at fair value. Fair value is usually at the original invoiced amount. Subsequent to initial recognition they are measured at amortised cost.

Impairment of financial assets

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

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

The Agency does not hold any derivative financial instruments.

Contingent liabilities

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

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

Government grant reserve

Grants received for capital assets are credited to the Government Grant Reserve, which is released to the statement of comprehensive income over the expected useful lives of the relevant assets.

Use of estimates and judgements

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

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

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

- Note 14 – Commitments under leases (PACT contract alternative payment mechanism lease)

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

Shared Service Centre

The Department for Transport's Shared Service Centre (SSC) is based in one of DVLA's leased buildings at Swansea Vale. The centre provides a mix of HR, finance, procurement and payroll services to a number of Business Units within the Department for Transport (DfT) and became operational in April 2007.

DVLA recharges DfT for the costs incurred on its behalf in terms of staff, IT services and accommodation, netting these costs in the DVLA accounts to only show the DVLA operational expenditure and separately disclosing the full recharge from the SSC for the services DVLA receives as a customer within operating costs. Staff working at the SSC remain on DVLA contracts of employment but governance arrangements and line management comes under DfT (Centre).

Cash Payable to Consolidated Fund

The 2010-11 Government Financial Reporting Manual introduced the following accounting change – the introduction of Trust statements for revenue collected by an entity that is due to the Consolidated Fund. Vehicle Excise Duty enforcement income is now brought to account in the Agency's Trust Statement and has resulted in a restatement of the Agency's creditors as at 31 March 2010 and 1 April 2009.

Payments to the Consolidated Fund from the Business Accounts represent amounts in excess of costs for DVLA personalised registrations/Cherished Transfer transactions. The income from these transactions is not deemed as due to the Consolidated Fund on receipt.

Note 2. Segmental reporting

2010-11 Operating Segments	Income from the Public: Fees	Income from the Public: DVLA personalised registrations	Service Level Agreement (Department for Transport): Vehicle Excise Duty Collection	Service Level Agreement (Department for Transport): Vehicle Excise Duty Enforcement	Service Level Agreement (Department for Transport): Additional Funding	Total
	£000	£000	£000	£000	£000	£000
Revenue	388,893	83,299	111,103	71,373	2,702	657,370
Expenditure	(310,396)	(12,894)	(111,103)	(71,373)	(2,702)	(508,468)
Surplus payable to the Consolidated Fund	(46,161)	(70,405)	–	–	–	(116,566)
Segment surplus	32,336	–	–	–	–	32,336
Reconciliation of reportable segment revenues & retained surplus						
Finance income						319
Finance costs						(1,851)
Dividend payable						(6,840)
Retained surplus for the year						23,964

2009-10 Operating Segments	Income from the Public: Fees	Income from the Public: DVLA personalised registrations	Service Level Agreement (Department for Transport): Vehicle Excise Duty Collection	Service Level Agreement (Department for Transport): Vehicle Excise Duty Enforcement	Service Level Agreement (Department for Transport): Additional Funding	Total
	£000	£000	£000	£000	£000	£000
Revenue	379,161	82,031	127,680	82,436	22,985	694,293
Expenditure	(293,265)	(15,000)	(127,680)	(82,436)	(23,678)	(542,059)
Surplus payable to the Consolidated Fund	(41,126)	(67,031)	–	–	–	(108,157)
Segment surplus	44,770	–	–	–	(693)	44,077
Reconciliation of reportable segment revenues & retained surplus						
Finance income						301
Finance costs						(3,403)
Dividend payable						(5,903)
Retained surplus for the year						35,072

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

Note 3. Staff numbers and related costs

Staff costs, excluding staff managed by Department for Transport, consistent with the accounting policies, comprise:

2010-11	Permanently employed staff	Short-term employment contract and agency staff	Total
	£000	£000	£000
Wages and salaries	123,362	6,773	130,135
Social security costs	8,324	204	8,528
Other pension costs	21,101	165	21,266
Voluntary early retirement costs (note 13)	106	–	106
Total	**152,893**	**7,142**	**160,035**

2009-10	Permanently employed staff	Short-term employment contract and agency staff	Total
	£000	£000	£000
Wages and salaries	126,139	5,170	131,309
Social security costs	8,263	205	8,468
Other pension costs	20,618	82	20,700
Voluntary early retirement costs (note 13)	5,184	–	5,184
Total	160,204	5,457	165,661

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The staff costs of the permanently employed staff include the non-consolidated pay award, which in 2010-11 amounted to £6,304,000 (2009-10: £6,335,000). The non-consolidated pay is an integral part of the Agency's reward structure. It is used to drive performance – it is not paid to staff who do not achieve satisfactory levels of performance and has to be re-earned each year. The non-consolidated performance pay quantum in total has been built up over a number of years by withholding an element of the pay award agreed with HM Treasury to support the Agency's move to non-consolidated performance payments to individuals which are contractual and pensionable.

DVLA staff working at the Shared Service Centre (SSC) but managed by Department for Transport (DfT) are not included in the above costs for either year as the recharges to DfT for their salaries are excluded from the DVLA Statement of Comprehensive Income and their costs included directly in the DfT accounts.

The Holiday Pay accrual (Employee Benefits IAS 19) at 31 March 2011 is £3,603,403 (31 March 2010: £3,666,409).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but DVLA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2008. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (**www.civilservice-pensions.gov.uk**).

For 2010-11, employers' contributions of £21.3 million were payable to the PCSPS (2009-10: £20.7 million) at one of four rates in the range 16.7 per cent to 24.3 per cent (2009-10: 16.7 per cent to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation.

The salary bands and contribution rates have remained unchanged for 2010-11 and 2011-12. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £220,797 (2009-10: £213,452) were paid to one or more of a panel of 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 per cent to 12.5 per cent (2009-10: 3.0 per cent to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3.0 per cent of pensionable pay. In addition, employer contributions of £15,689, 0.8 per cent (2009-10: £15,287, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £0. Contributions prepaid at that date were £0.

Average number of persons employed

2010-11	Permanent staff (FTEs)	Short-term employment contract and agency staff (FTEs)	Total (FTEs)
Directly employed	5,499	218	5,717
Staff managed by Department for Transport (Shared Service Centre)	255	12	267
Total	**5,754**	**230**	**5,984**

2009-10	Permanent staff (FTEs)	Short-term employment contract and agency staff (FTEs)	Total (FTEs)
Directly employed	5,556	199	5,755
Staff managed by Department for Transport (Shared Service Centre)	249	64	313
Total	5,805	263	6,068

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Civil Service and other compensation schemes – exit packages

2010-11 Exit package cost band (£)	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**
< 10,000	–	6	6
10,000 – 25,000	–	1	1
25,000 – 50,000	–	2	2
Total number of exit packages by type	–	9	9
Total resource cost (£)	–	114,830	114,830

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. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

During the financial year 2010 -2011, a number of payments were made which were not covered by the Civil Service Compensation Scheme.

These ex-gratia payments were agreed with HM Treasury and are detailed below:

- two payments under £10,000 for termination of employment.

2009-10 Exit package cost band (£)	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**
< 10,000	–	4	4
10,000 – 25,000	–	4	4
25,000 – 50,000	–	1	1
Total number of exit packages by type	–	9	9
Total resource cost (£)	–	114,296	114,296

During the financial year 2009-10, a number of payments were made which were not covered by the Civil Service Compensation Scheme.

These ex-gratia payments were agreed with HM Treasury and are detailed below:

- Four payments under £10,000 for termination of employment
- One payment between £10,000 and £25,000 for termination of employment
- One payment between £50,000 and £100,000 for termination of employment.

Note 4. Operating costs

	2010-11 £000	2010-11 £000	2009-10 £000	2009-10 £000
Outsourced Services				
ICT Services (IBM)	120,795		124,233	
Post Office®	44,764		36,152	
Wheelclamping	17,346		19,946	
PFI Estates unitary charge	17,669		17,860	
Northern Ireland (DVA) (i)	11,970		13,181	
Medical practitioners	11,389		9,932	
Shared Services (ii)	4,578		4,392	
		228,511		225,696
Service delivery				
Postal related expenses	27,813		30,488	
Publicity and marketing	1,547		13,417	
Non outsourced ICT	12,175		13,376	
Stationery and printing	9,830		12,842	
Blank cards	10,142		10,409	
Credit card charges	11,710		10,616	
Maintenance of machinery and vehicles	4,422		4,869	
Consultancy	757		3,765	
Professional services	2,484		1,941	
		80,880		101,723
Accommodation				
Rates	812		4,114	
Utilities	2,361		4,109	
Rentals under operating leases	6,705		6,440	
Estates maintenance	1,376		2,903	
Furniture and fittings	(89)		1,238	
		11,165		18,804
Staffing				
Travel & subsistence	2,100		2,646	
Training	762		1,391	
Specialist clothing	160		135	
Books and publications	25		55	
Recruitment	57		(271)	
		3,104		3,956
Other				
Other items	4,051		3,246	
Department for Transport	297		1,625	
Auditor's remuneration (iii)	117		136	
		4,465		5,007
Total Operating costs		328,125		355,186

(i) Note that these costs are provided in full detail in the Driver and Vehicle Agency accounts, which can be obtained from Driver and Vehicle Agency Finance, County Hall, Castlerock Road, Coleraine BT51 3HS. The agreement is for DVLA to cover the cost of the provision of services in Northern Ireland for the licensing and registration of vehicles and collection of Vehicle Excise Duty (VED). This includes the enforcement of non-payment of VED, registration of new and used vehicles, provision of a vehicles enquiry line and sale and transfer of personalised registration marks.

(ii) Department for Transport (DfT) accounts for all Shared Service Centre (SSC) income and costs. Accommodation and IT services remain delivered through DVLA contracts, and DVLA staff working at the SSC, managed by DfT remain on DVLA contracts of employment (see Note 3). DVLA nets off the recharges to DfT prior to disclosure in its accounts so that it presents only its own operating expenditure, showing then the full cost of the invoiced service it receives from the DfT SSC as part of its functional expenditure.

(iii) Auditor's remuneration comprises a cash charge for the statutory audit of the DVLA Business accounts of £87,250 (2009-10: £85,000) along with a notional fee for the statutory audit of the Trust Statement of £30,150 (2009-10: £26,000). The 2009-10 amount included a charge of £25,000 for the audit of the International Financial Reporting Standards conversion.

(iv) The classification of operating costs has been amended from the 2009-10 accounts to improve the transparency of the Agency's operating costs.

Note 5. Finance income/(costs)

	2010-11	2009-10
	£000	£000
Finance Income		
Bank interest	**319**	301
Total finance income	**319**	301
Finance Costs		
Interest on imputed finance lease element of on balance sheet PFI contracts	**(1,882)**	(1,929)
Interest on finance lease liabilities	**(41)**	(1,046)
Unwinding of discount and impact of changes in discount rate on provisions	**72**	(428)
Total finance costs	**(1,851)**	(3,403)
Net finance costs	**(1,532)**	(3,102)

Note 6. Dividends and return on capital employed

	2010-11	2009-10
	£000	£000
3.5% Return on capital employed	**6,840**	5,903
Dividend Payable	**6,840**	5,903

The average return on net assets over the period 1 April 2010 to 31 March 2011 was 16 per cent against the financial target of an average 3.5 per cent. This dividend is limited to the annual average target of 3.5 per cent.

Note 7. Property, plant and equipment

2010-11	Land	Buildings (excl. PFI fit out)	Information Technology	Plant & Machinery	Furniture & Fittings (incl. PFI fit out)	Motor Vehicles	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2010	4,329	59,329	48,969	10,865	45,837	–	790	170,119
Additions	–	53	447	1,008	50	64	287	1,909
Disposals	–	(134)	(44,873)	(6,471)	(10,551)	–	–	(62,029)
Transfer	–	–	228	310	252	–	(790)	–
Revaluations	294	3,045	(115)	246	1,231	–	–	4,701
At 31 March 2011	4,623	62,293	4,656	5,958	36,819	64	287	114,700
Depreciation								
At 1 April 2010	–	4,259	46,102	7,417	24,959	–	–	82,737
Charged in year	–	1,704	709	861	3,659	16	–	6,949
Disposals	–	(134)	(44,664)	(6,277)	(10,257)	–	–	(61,332)
Revaluations	–	–	(43)	94	241	–	–	292
At 31 March 2011	–	5,829	2,104	2,095	18,602	16	–	28,646
Net book value at 31 March 2010	4,329	54,964	2,867	3,448	20,984	–	790	87,382
Net book value at 31 March 2011	4,623	56,464	2,552	3,863	18,217	48	287	86,054
Asset financing								
Owned	4,193	31,312	2,552	3,863	9,175	48	287	51,430
On-balance sheet PFI contracts	430	25,152	–	–	9,042	–	–	34,624
Net book value at 31 March 2011	4,623	56,464	2,552	3,863	18,217	48	287	86,054

2009-10	Land	Buildings (excl. PFI fit out)	Information Technology	Plant & Machinery	Furniture & Fittings (incl. PFI fit out)	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2009	4,080	53,927	42,273	8,002	44,747	17	153,046
Additions	–	2,636	1,041	2,775	–	780	7,232
Disposals	–	–	(401)	(77)	(25)	–	(503)
Transfer	–	–	7	2	(2)	(7)	–
Revaluations	249	2,766	6,049	163	1,117	–	10,344
At 31 March 2010	4,329	59,329	48,969	10,865	45,837	790	170,119
Depreciation							
At 1 April 2009	–	2,907	38,833	6,727	19,475	–	67,942
Charged in year	–	1,377	2,115	613	5,223	–	9,328
Disposals	–	–	(400)	(62)	(22)	–	(484)
Revaluations	–	(25)	5,554	139	283	–	5,951
At 31 March 2010	–	4,259	46,102	7,417	24,959	–	82,737
Net book value at 31 March 2009	4,080	51,020	3,440	1,275	25,272	17	85,104
Net book value at 31 March 2010	4,329	55,070	2,867	3,448	20,878	790	87,382
Asset financing							
Owned	3,926	30,089	2,867	3,448	11,246	790	52,366
On-balance sheet PFI contracts	403	24,981	–	–	9,632	–	35,016
Net book value at 31 March 2010	4,329	55,070	2,867	3,448	20,878	790	87,382

Contractual commitments for property plant and equipment are covered by the Private Finance Initiative (PFI) contract and are included in Note 15. There are no commitments for 2010-11 (2009-10: £989,300).

The Agency does not hold any property, plant and equipment assets financed by finance lease other than PFI.

DVLA acquired during 2010-11 a number of vehicles from its sister agency Government Car and Despatch Agency as the most cost effective way of meeting Department for Transport's requirements overall. DVLA has not previously owned its own vehicles and will keep this initiative under close review for the future.

Valuation of Assets

Land and buildings are revalued every five years on an existing use valuation by appointed Chartered Surveyors. It was considered appropriate to undertake a full valuation of the Agency's estates on 31 March 2009 after a four-year interval, prior to the introduction of International Financial Reporting Standards from 1 April 2009, to allow a simple one-stage transition. This coincided with the substantial completion of the estates development and refurbishment programme delivered through the estates Private Finance Initiative (PFI) contract with Telereal Trillium. The valuation of the estates was undertaken principally on an existing use basis. An exception was the valuation by the external valuers of the Felinfach premises at Fforestfach at 31 March 2009 which was undertaken on a Depreciated Replacement Cost basis whereby the component parts will be depreciated over their appropriate lives. This revaluation was carried out by Joseph Funtek BSc (Hons) MRICS from Gerald Eve.

Freehold land was revalued as at 31 March 2010, using the Knight Frank Residential Development Land Index for the fourth quarter of 2009 as at the end of March 2010 the index was not considered to be materially different.

Office property (including PFI office property) was revalued as at 31 March 2011 using data provided by Colliers International, commercial surveyors, commissioned by the Department for Transport to produce a brief report on the movement in land values and property values for the period 1 April 2010 to 31 March 2011.

The index for office property (including PFI office property) was used to revalue the PFI assets and also specific fixtures and fittings assets, which relate to the specialised fit-out of the Richard Ley Development Centre and the contact centre.

The net book value of land includes freehold £3.9 million (2009-10: £3.7 million) and leasehold £0.7 million (2009-10: £0.6 million). (Richard Ley Development Centre £0.2 million (125 year lease) and Fforestfach £0.5 million (999 year lease)). The net book value of buildings relates to DVLA property with PFI buildings/refurbishment having a net book value of £24 million (2009-10: £25.0 million).

During 2010-11 the assets held by Driver and Vehicle Agency in respect of Northern Ireland Vehicle Information System have been transferred to the Agency. They were transferred at net book value of £2.7 million.

Review of Fixed Assets

The Agency has undertaken a review of its capitalisation policy and implemented a threshold of £5,000 from 1 April 2010. All assets with a net book value of less than £5,000 at 1 April 2010 amounting to £426,000 have been written off, the view of management being that these assets had come to the end of their useful life.

Analysis of depreciation, amortisation and impairment line in Statement of comprehensive income

	2010-11	2009-10
	£000	£000
Depreciation of property, plant and equipment	**6,949**	9,328
Loss on disposal of property, plant and equipment and intangibles	**755**	19
Amortisation of intangible assets (note 8)	**19,482**	17,355
	27,186	26,702

	2010-11	2009-10
The amounts of depreciation, amortisation and impairment that was financed by Government grant and for which the grant has been released in the year is as follows:	**£000**	£000
	6,878	5,490

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Note 8. Intangible assets

The Agency holds a perpetual software licence with Hewlett Packard (HP) for the right to use the driver and vehicle software. Development work undertaken by the Agency that adds value to this is capitalised. In addition, purchased software licences are capitalised in this category.

2010-11	**Software**	**Assets under Construction**	**Total**
	£000	**£000**	**£000**
Cost or Valuation			
At 1 April 2010	186,879	12,740	199,619
Additions	2,417	14,736	17,153
Transfer	11,104	(11,104)	–
Disposals	(10,143)	–	(10,143)
Revaluation	2,508	–	2,508
At 31 March 2011	**192,765**	**16,372**	**209,137**
Amortisation			
At 1 April 2010	104,416	–	104,416
Charged in year	19,482	–	19,482
Disposals	(10,080)	–	(10,080)
At 31 March 2011	**113,818**	**–**	**113,818**
Net book value at 31 March 2010	82,463	12,740	95,203
Net book value at 31 March 2011	**78,947**	**16,372**	**95,319**

2009-10	Software	Assets under Construction	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2009	168,521	5,689	174,210
Additions	13,719	9,915	23,634
Transfer	2,864	(2,864)	–
Revaluation	1,775	–	1,775
At 31 March 2010	186,879	12,740	199,619
Amortisation			
At 1 April 2009	87,061	–	87,061
Charged in year	17,355	–	17,355
At 31 March 2010	104,416	–	104,416
Net book value at 31 March 2009	81,460	5,689	87,149
Net book value at 31 March 2010	82,463	12,740	95,203

The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model would have been £87.3 million (2009-10: £89.4 million).

Intangible additions of £14.7 million (2009-10: £9.9 million) have been included in respect of software under development which is due to be completed and brought into use in future years. Of the net book value at 31 March 2011 £36.9 million (31 March 2010: £38.5 million) has been financed by finance lease.

Significant intangible assets controlled by the Agency are detailed below:

Asset	31 March 2011			31 March 2010		
	Remaining Useful economic life	Net Book Value		Remaining Useful economic life	Net Book Value	
	(months)	£000	£000	(months)	£000	£000
Electronic Vehicle Re-licensing	34		9,607	46		12,583
DVLA personalised registrations	57		4,832	69		5,662
Vehicle System Software Re-platforming	47		6,126	59		7,445
Drivers re-engineering						
Phase 1	96	25,296		108	27,549	
Phase 2	60	3,818		72	2,754	
Phase 2.1 (value added in 2010-11)				AUC	1,681	
			29,114			31,984
Ten Year Renewal						
Phase 2	59		7,772	71	402	
Phase 2 (value added in 2010-11)				AUC	1,670	
Enhancement (value added in 2010-11)				AUC	6,123	
						8,195
Smart Tachographs	42	768		54	956	
Smart Tachographs – Phase 1	57	3,287		69	3,852	
			4,055			4,808
Common Driver and Vehicle Operators interface	34		994	46		1,303
Drivers casework system (CASP)	9		1,213	21		2,739
Weblogic	AUC		4,982	AUC		1,090
Payment Card Data Security	AUC		2,523	AUC		694
Others			24,101			18,700
Total			95,319			95,203

AUC relates to Assets Under Construction.

There were no contractual commitments for intangibles as at 31 March 2011.

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Note 9. Trade and other receivables

	31 March 2011	31 March 2010	1 April 2009
	£000	£000	£000
Amounts falling due within one year:			
Trade receivables	**4,692**	5,162	5,815
Other receivables	**92**	63	211
Public sector debtors	**10,966**	16,092	9,841
VAT reclaimable	**5,738**	9,161	3,968
Post Office® prepayments	**23,310**	19,378	19,281
IBM prepayment – IT equipment	**5,799**	7,771	5,208
IBM prepayment – service delivery	**4,572**	3,503	–
Other prepayments	**2,571**	2,005	20
Estates PFI prepayment	**1,286**	1,886	1,683
Accrued income	**4,439**	2,538	12,811
	63,465	67,559	58,838
Amounts falling due after more than one year:			
IBM prepayment – IT equipment	**5,011**	8,014	3,833
IBM prepayment – service delivery	**128**	–	–
	5,139	8,014	3,833
Total	**68,604**	75,573	62,671

Trade receivables 2010-11 of £4.7 million (2009-10 £5.1 million) includes £3.6 million (2009-10 £3.6 million) in relation to DVLA personalised registrations auctions. This amount will, after deduction of costs, be paid over to HM Treasury during the subsequent financial year.

All prepayments deliver improved terms of contract but are assessed on each individual case to ensure value for money before they are made.

Note 10. Cash and cash equivalents

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	**60,687**	50,579	45,769
Net change in cash and cash equivalent balances	**4,989**	10,108	4,810
Balance at 31 March	**65,676**	60,687	50,579
The following balances at 31 March were held at:			
Government Banking Service	**65,676**	60,687	50,579
Balance at 31 March	**65,676**	60,687	50,579

The Government Banking Service balance held of £65.7 million includes £20.0 million (2009-10: £27.3 million) held on behalf of HM Treasury and £0.34 million (2009-10: £5.9 million) due to Department for Transport (DfT), both due to be paid over soon after the year end (see Note 11).

Note 11. Trade and other payables

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Amounts falling due within one year			
Trade payables	**7,688**	18,248	15,391
Accruals and deferred income	**20,885**	27,828	34,135
Current part of finance leases	**–**	607	3,276
Current part of imputed finance lease element of on balance sheet estates Private Finance Initiative (PFI) contract	**1,657**	1,570	1,446
Dividend Payable to Department for Transport	**340**	5,903	4,386
Cash balance payable to the Consolidated Fund	**12,390**	5,829	12,665
Cash balance payable to the Trust Statement	**7,645**	21,429	12,091
Other – capital accrual	**327**	597	–
Loan from DfT (i)	**1,904**	–	–
	52,836	82,011	83,390
Amounts falling due after more than one year:			
Finance leases	**–**	–	5,537
Inputed finance lease element of on-balance sheet estates Private Finance Initiative (PFI) contract	**32,136**	33,793	34,401
Loan from DfT (i)	**17,144**	–	–
	49,280	33,793	39,938
Total	**102,116**	115,804	123,328

(i) In 2010-11 the Agency received a loan from DfT for £19.0 million to replace the Public Dividend Capital that was repaid in preparation for the revocation of Trading Fund status (see Note 23). The terms of this loan are 10 years at an interest rate of 3.69 per cent (Public Works Loan Board rate).

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

Inputed finance lease element of on-balance sheet Estates PFI contract	2010-11	2009-10
	£000	£000
1 April	**35,363**	35,847
Increase due to assets capitalised	**–**	976
Amount paid in relation to assets capitalised	**(1,570)**	(1,460)
31 March	**33,793**	35,363

Note 12. Financial Instruments

Fair values

The fair values of the Agency's financial assets and liabilities as at 31 March 2011 are shown below. With the exception of Finance Lease and Private Finance Initiative (PFI) creditors, due to the short-term nature of the financial instruments held, carrying value is considered to represent the fair values.

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.

	2010-11 Fair value £000	**2010-11 Carrying amount £000**	2009-10 Fair value £000	2009-10 Carrying amount £000
Financial Assets				
Cash and cash equivalents (note 10)	**65,676**	**65,676**	60,687	60,687
Loans and receivables (note 9)				
– Trade receivables	**4,692**	**4,692**	5,162	5,162
– Other receivables	**92**	**92**	63	63
– Public sector receivables (N.B. includes VAT)	**16,704**	**16,704**	25,253	25,253
– Accrued income	**4,439**	**4,439**	2,538	2,538
Total loans and receivables	**25,927**	**25,927**	33,016	33,016
Total financial assets	**91,603**	**91,603**	93,703	93,703
Financial liabilities				
Trade and other payables (note 11)				
– Trade payables	**7,688**	**7,688**	18,248	18,248
– Accruals	**20,885**	**20,885**	27,828	27,828
– Dividend payable	**340**	**340**	5,903	5,903
– Cash balance payable to the Consolidated Fund	**12,390**	**12,390**	5,829	5,829
– Cash balance payable to the Trust Statement	**7,645**	**7,645**	21,429	21,429
– Finance leases	**–**	**–**	623	607
– Imputed finance lease element of on-balance sheet PFI contracts	**32,943**	**33,793**	34,468	35,363
– Capital Accruals	**327**	**327**	597	597
– Loan from Department for Transport	**19,048**	**19,048**	–	–
Total financial liabilities	**101,266**	**102,116**	114,925	115,804

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

Financial risk management

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

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

Overall procedures for managing risk

The Agency's overall risk management procedures focus on 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 Statement on Internal Control**).

The financial systems of management control established include:

- Integrated Resource Management (IRM) – a monthly planning cycle, which supports budgetary controls, monitoring volume and change demand, resource supply. The IRM process is also fundamental as part of our efficiency and Value for Money (VFM) planning and monitoring, especially in respect of headcount.
- Finance Committee - delegated expenditure responsibilities, also providing advice on operational budgets and project affordability to the Executive Board (EB). Chaired by the Director of Finance, the Finance Committee meets on a monthly basis.
- Monthly reporting (including KPIs, income and expenditure) to EB and our Sponsor the Motoring Services Directorate of the Department for Transport.
- Monthly programme expenditure reporting to Agency Change Board, EB and MFS.
- Quarterly review of budgets at Executive Board Financial Review.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Agency's customers and other parties. The Agency invests only with National Loans Fund, transferring funds from its Government Banking Service accounts. DVLA does not use any third party money markets thus avoiding the risks associated with depositing surplus funds in such markets.

Exposure to credit risk

The carrying amount of financial assets £91,603,000 (31 March 2010: £93,703,000) represents the maximum credit exposure.

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

	31 March 2011	31 March 2010
	£000	£000
Not past due	**24,929**	32,003
Past due 0-30 days	**44**	176
Past due 31-120 days	**860**	830
More than 120 days	**94**	7
Total	**25,927**	33,016

There has been no impairment provision for 2010-11 (2009-10: £nil). As the majority of DVLA's balances comprise other Government Departments and Agencies, the Agency believes that no further impairment allowance is necessary in respect of any other trade receivables.

The movement in the allowance of impairment in respect of receivables during the year was as follows:

	2011	2010
	£000	£000
Balance at 1 April	–	81
Impairment loss – payment received	–	(81)
Balance at 31 March	–	–

Liquidity Risk

The Agency's exposure to liquidity risk is limited. The level of capital expenditure payments are managed to be met from available cash balances. The contractual maturity of finance lease financial liabilities, including interest payments is:

31 March 2011

Non-derivative financial liabilities	Carrying amount	Future Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	–	–	–	–	–	–	–
Private Finance Initiative (PFI) Liabilities	33,793	(48,331)	(1,726)	(1,726)	(3,452)	(10,356)	(31,071)
Loan from Department for Transport	19,048	(22,738)	(1,304)	(1,286)	(2,520)	(7,138)	(10,490)
Total	**52,841**	**(71,069)**	**(3,030)**	**(3,012)**	**(5,972)**	**(17,494)**	**(41,561)**

Non-derivative financial liabilities	Fair Value	Fair Value of Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	–	–	–	–	–	–	–
PFI Liabilities	32,943	(32,943)	(1,680)	(1,634)	(3,095)	(8,337)	(18,197)
Loan from Department for Transport	19,048	(19,048)	(1,280)	(1,240)	(2,363)	(6,231)	(7,934)
Total	**51,991**	**(51,991)**	**(2,960)**	**(2,874)**	**(5,458)**	**(14,568)**	**(26,131)**

31 March 2010

Non-derivative financial liabilities	Carrying amount	Future Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	607	(647)	(479)	(168)	–	–	–
PFI Liabilities	35,363	(51,783)	(1,726)	(1,726)	(3,452)	(10,357)	(34,522)
Total	35,970	(52,430)	(2,205)	(1,894)	(3,452)	(10,357)	(34,522)

Non-derivative financial liabilities	Fair value	Fair Value of Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	623	(623)	(466)	(157)	–	–	–
PFI Liabilities	34,468	(34,468)	(1,680)	(1,635)	(3,096)	(8,337)	(19,720)
Total	35,091	(35,091)	(2,146)	(1,792)	(3,096)	(8,337)	(19,720)

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 rates

The Agency has been exposed to interest rate movements on its cash balances only. In 2010-11 the Agency received a loan from Department for Transport, the terms of this loan are 10 years at an interest rate of 3.69 per cent (Public Works Loan Board rate). Cash balances are held in short term, floating interest-earning accounts and from 1 April 2010 these have all been 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	
	2011 £000	2010 £000
Fixed Rate instruments		
PACT contract alternative payment mechanism finance leases	**–**	(607)
PFI	**(33,793)**	(35,363)
Financial liabilities	**(33,793)**	(35,970)
Variable rate instruments		
Interest bearing bank accounts	**(44,913)**	(49,498)

Fair value sensitivity analysis for fixed rate instruments

The Agency does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Agency does not designate derivatives as hedging instruments under a 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 per cent in interest rates at the reporting date would have increased/(decreased) the surplus or deficit for the year by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for 2009-10.

	Surplus or Deficit: 0.5% increase/(decrease)	
	£000	£000
31 March 2011	**225**	**(225)**
31 March 2010	249	(249)

Foreign exchange rates

Financial assets and liabilities are generated by day-to-day operational activities and the Agency has limited exposure to foreign exchange.

Note 13. Provisions for liabilities and charges

2010-11	Early departure costs £000	Tax officers' pension costs £000	Total £000
Balance at 1 April 2010	10,303	5,090	15,393
Provided in the year	158	(52)	106
Provisions utilised in the year	(2,678)	(806)	(3,484)
Unwinding of discount and impact of changes in discount rate	(36)	(36)	(72)
Balance at 31 March 2011	7,747	4,196	11,943

CONTENTS

Analysis of expected timing of discounted cash flows

2010-11	Early departure costs £000	Tax officers' pension costs £000	Total £000
Not later than one year	2,097	636	2,733
Later than one year and not later than five years	5,092	2,052	7,144
Later than five years	558	1,508	2,066
Balance at 31 March 2011	7,747	4,196	11,943

2009-10	Early departure costs £000	Tax officers' pension costs £000	Total £000
Balance at 1 April 2009	8,779	5,872	14,651
Provided in the year	5,201	(17)	5,184
Provisions utilised in the year	(4,105)	(765)	(4,870)
Unwinding of discount and impact of changes in discount rate	428	–	428
Balance at 31 March 2010	10,303	5,090	15,393

Analysis of expected timing of discounted cash flows

2009-10	Early departure costs £000	Tax officers' pension costs £000	Total £000
Not later than one year	2,518	705	3,223
Later than one year and not later than five years	6,872	2,405	9,277
Later than five years	913	1,980	2,893
Balance at 31 March 2010	10,303	5,090	15,393

Early departure costs

The Agency meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme (PCSPS)/Stakeholder scheme benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS/Stakeholder schemes over the period between early departure and normal retirement date of age 60. The Agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments. Future payments to be made under the Early Departure and Voluntary Retirement schemes are discounted at the HM Treasury advised rate of 2.9 per cent (2009-10: 1.8 per cent).

Tax officer pension costs

Under the Pension Increase Act 1971, the Agency has a liability to contribute to the pensions of ex local taxation office staff who were employed on driver and vehicle licensing work before the creation of the Driver and Vehicle Licensing Centre. Under the Vehicle and Driving Licence (Compensation to Officers) Regulations 1977, the Agency makes compensation payments to local authority staff in respect of loss of emoluments when the Local Taxation Offices closed. The provision is based on advice from the Government Actuary Department, which is re-assessed normally every three years but due to adoption of International Financial Reporting Standards a re-assessment has taken place at 31 March 2010. Following the estimations of future cash flows provided by the Government Actuary Department future payments to be made in relation to this provision have been discounted at the HM Treasury advised rate of 2.9 per cent (2009-10: 1.8 per cent).

Note 14. Commitments under leases

Operating leases

Obligations under operating leases comprise:	31 March 2011 £000	31 March 2010 £000
Buildings		
Not later than one year	**6,183**	6,740
Later than one year and not later than five years	**17,807**	18,493
Later than five years	**19,497**	22,261
	43,487	47,494
Other:		
Not later than one year	**124**	137
Later than one year and not later than five years	**78**	159
Later than five years	**–**	–
	202	296

CONTENTS

Finance leases

Obligations under finance leases comprise:	31 March 2011 £000	31 March 2010 £000
Other:		
Not later than one year	–	648
Later than one year and not later than five years	–	-
Later than five years	–	-
Less interest element	–	(41)
	–	607

Finance Leases are made up of software development expenditure. Expenditure is capitalised and depreciated over the life of the associated asset and the finance lease creditor is released over the four year life of the agreement. Finance lease interest is expensed at a constant periodic rate on the outstanding balance of the liability.

Note 15. Commitments under Private Finance Initiative (PFI) on-balance sheet contracts

On-balance sheet

	31 March 2011 £000	31 March 2010 £000
Total obligations under on-balance sheet Estates PFI contract for the following periods comprise:		
Not later than one year	3,452	3,452
Later than one year and not later than five years	13,808	13,809
Later than five years	31,071	34,522
	48,331	51,783
Less interest element	(14,538)	(16,420)
	33,793	35,363

There were no capital commitments under the Estates PFI contract in 2010-11 (2009-10: £989,000).

Charge 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 on-balance sheet PFI transactions was £17.7 million (2009-10: £17.9 million) and the payments to which the Agency is committed during the next year, analysed by the period during which the commitment expires, is as follows:

	2010-11	2009-10
	£000	£000
Sixteen to twenty years	**18,865**	17,734

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

Note 16. Other financial commitments

The Agency has entered into non-cancellable contracts (which are not leases or Private Finance Initiative contracts), for:

- Provision of end to end IT service including the provision of IT equipment
- Post Office® services including vehicle licensing, driver licence application checking, renewal of photo-licence.
- Wheelclamping services

The key payments to which the Agency is committed, analysed by the period during which the commitment expires are as follows:

	2010-11	2009-10
	£000	£000
Not later than one year	**7,872**	17,307
Later than one year and not later than five years	**641,242**	147,127
Later than five years	**–**	602,900
	649,114	767,334

Note 17. Contingent liabilities

The Public and Commercial Services Union lodged an equal pay claim against the Agency in 2007 on behalf of DVLA Executive Officers (EO) and using Driving/Senior Driving Examiners in Driving Standards Agency as the comparators. The Agency does not expect to incur a liability as it has a strong case and will provide a robust argument to rebut the union case. In the unlikely event that judgement is found against DVLA, the Agency is unable to reliably estimate the financial impact because of the complexities involved and the potential timescale to conclusion.

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Note 18. Losses and special payments

	2010-11 Number of cases	2010-11 Value £	2009-10 Number of cases	2009-10 Value £
Losses written off in year				
These are cash losses due to abandoned claims for payments from customers	**734**	**59,289**	619	38,414
Special payments				
Ex-gratia payments	**1,195**	**178,310**	1,321	139,000

With the change in accounting policy relating to the collection of enforcement fines and penalties any losses relating to abandoned enforcement cases are now accounted for in the Trust Statement.

Losses and special payments

2010-11

A potential equipment supplier initiated legal proceedings against DVLA during the year. After due process and appropriate approvals, the proceedings were concluded on mutually acceptable terms. We accrued for a special payment in excess of the reporting threshold of over £250,000. This accrual is included in Trade and Other Payables (Note 11), with the payment being made in May 2011.

Update on 2009-10 Accounts

In very early 2010-11 a key supplier of the technical equipment to DVLA became insolvent owing the Agency goods and services. The costs of these goods and services were expensed within the Statement of comprehensive income in 2009-10 as there was uncertainty as to whether they would be received. In 2010-11 DVLA has subsequently received the majority of outstanding goods and services through negotiation, but the final distribution from the administrators is still outstanding. DVLA remains optimistic, based on interim statements, that the Agency will be reimbursed for the majority of its costs. The final position will be reported within the 2011-12 Accounts.

The table below shows the current position regarding this:

	£000
Goods and services outstanding at 31 March 2010	3,093
Less amounts recovered in 2010-11	(1,362)
Amount outstanding awaiting distribution from administrators	**1,731**

In 2011-12 work will commence to redefine the delivery of electronic services. We propose to utilise some outputs from the Vehicle Integration Northern Ireland (VINI) Project to assist in the analysis phase for NI electronic services and expect that elements of the Tracking Vehicles through the Trade (TV3T) Project will be revisited as part of broader work to restructure the vehicles change of keeper process. As VINI and TV3T had previously been delayed with the full solutions yet to be detailed or agreed;it is not possible to estimate with any accuracy the exact benefits that will be derived from the two projects.

Note 19. Related parties

DVLA is sponsored by the Motoring Services, Directorate of the Department for Transport (DfT) that also sponsors two other Trading Funds: Driving Standards Agency (DSA) and Vehicle & Operator Services Agency (VOSA).

DfT is regarded as a related party and DVLA has a significant number of material transactions with DfT, most notably in respect of the Vehicle Excise Duty Service Level Agreement and Shared Services Centre. In addition, the Agency has had a significant number of material transactions with other government departments and central government bodies. Most of these transactions have been with Department of Work and Pensions, Driving Standards Agency, UK Border Agency, Identity and Passport Service, and the Post Office®.

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

Note 20. Intra-government balances

	31 March 2011 £000 Receivables	**31 March 2011 £000 Payables**	31 March 2010 £000 Receivables	31 March 2010 £000 Payables
Central Government bodies	**6,263**	**22,671**	11,177	19,434
Trading Funds and Public Corporations	**34,964**	**398**	33,627	1,500
Local Authorities	**2**	**–**	602	–
Total Intra-government balances	**41,229**	**23,069**	45,406	20,934

Note 21. Pension costs

Pension benefits are provided through the Principal Civil Service pension scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based final salary defined benefit schemes (Classic, Premium and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality money purchase stakeholder based arrangement with a significant employer contribution (Partnership Pension Account). Details of the standard PCPS are available on **www.civilservice-pensions.gov.uk**

Further details are included in the Remuneration Report earlier and in Note 3 to the accounts.

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Note 22. Motor Vehicle Licence Savings Stamps

For a number of years DVLA ran a Motor Vehicle Licence (MVL) Savings Stamps scheme whereby customers could purchase savings stamps at the Post Office® and use them to redeem against payment for vehicle excise duty or for cash. The Post Office® held the cash funds representing unredeemed stamps held by members of the public in a specially designated account. In 2004, the Post Office® announced the introduction of its own wider savings stamps scheme. To coincide with this, DVLA announced that the issue of MVL Savings Stamps would cease on 31 March 2005. During 2005-06, the Post Office® continued to honour stamps presented for payment of Vehicle Excise Duty and drew on the cash funds it held to settle the amounts due. On 1 April 2006, the balance of cash held at the Post Office® (£38 million) was transferred to DVLA and from that date, holders of stamps could only redeem them or receive a refund directly from DVLA.

Since becoming a Trading Fund on 1 April 2004, DVLA has funded the running of the scheme covering both its own costs as well as those of the Post Office® during the transition year of 2005-06. From 1 April 2006 until 26 March 2008, the cash funds representing unredeemed stamps were held in an interest earning account. At 31 March 2011 the balance of funds remaining, amounting to £4.7 million (2009-10: £4.7 million) was held in a non-interest earning account with Government Banking Service. This cash balance and the associated creditor balance representing amounts owed to stamp holders are excluded from the Statement of financial position.

Note 23. Events after the Reporting Period

The Trading Fund status of the Agency was revoked by SI 630 2011 which came into force on 1 April 2011. The revocation was required to enable the Department for Transport to fully comply with the requirements of HM Treasury's Alignment (Clear Line of Sight) Project, made law through the Constitutional Reform and Government Act 2010 that came into force on 8 April 2010. The DVLA was unique in government, classified by the Office of National Statistics as a central government body in the national accounts, but with Trading Fund status. The classification as a central government body implied that it should be brought on vote as part of Alignment; however this was inconsistent with its Trading Fund status. In order to resolve the inconsistency between DVLA's Trading Fund status and the need to bring its expenditure on Vote as part of the Alignment project it was agreed that the DVLA's Trading Fund status should be revoked. The revocation regulation was purely to address this anomaly. The Agency will continue to levy its fees and charges to cover the costs of its registration and licensing duties and will receive service level agreement funding to cover the full costs of collecting and enforcing Vehicle Excise Duty. It remains an Executive Agency of the Department for Transport. The Public Dividend Capital of £19 million was repaid in 2010-11 in preparation for the revocation of the Trading Fund status. To maintain the working capital of the Agency in 2011-12 this has been replaced by a loan from the Department for Transport. This change in status does not impact on the going concern of DVLA.

These financial statements are laid before the Houses of Parliament by the Comptroller & Auditor General (C&AG). International Accounting Standards (IAS) 10 requires the Trading Fund to disclose the date on which the accounts are authorised for issue. This is the date that the C&AG signs the certificate.

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

I have audited the Driver and Vehicle Licensing Agency's Trust Statement Account for the year ended 31 March 2011 under the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. The account comprises the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within the notes to the Account.

Respective responsibilities of the Driver and Vehicle Licensing Agency, Accounting Officer and auditor

As explained more fully in the Statement of Agency and Accounting Officer's Responsibilities, the Agency and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and report on the financial statements in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000. I have 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 Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Driver and Vehicle Licensing Agency; and the overall presentation of the financial statements. In addition, I read all the financial and non- financial information in the Annual Report to identify any material inconsistencies with the audited financial statements. If I become ware of any apparent misstatements or inconsistencies I consider the implications for my report.

I addition, 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 conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the Trust Statement gives a true and fair view, in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs as at 31 March 2011 relating to the collection and allocation of taxes, licence fees, fines and penalties, and of its revenue and expenditure for the year then ended; and
- the Trust Statement has been properly prepared in accordance with the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Directors' Report and the Management Commentary included within the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for 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
- the financial statements 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 Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

My Section 2 report, which is presented under the Exchequer and Audit Departments Act 1921, on the Driver and Vehicle Licensing Agency's arrangements for the assessment, collection, and proper allocation of revenue is at Appendix 1.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP
29 June 2011

4.7 DVLA Trust Statement for 2010-2011

Statement of revenue and expenditure for the year ended 31 March 2011

	Notes	2010-11 £m	2009-10 £m (re-stated)
Revenue			
Licence Fees and Taxes			
Vehicle Excise Duty	2	**5,782**	5,742
Fines and Penalties			
Vehicle Excise Duty Enforcement	3	**49**	59
Total Revenue		**5,831**	5,801
Expenditure			
Payments to HM Revenue and Customs	4	**(1)**	(1)
Credit losses – amounts written off	5	**(20)**	(19)
Total Expenditure		**(21)**	(20)
Net Revenue for the Consolidated Fund		**5,810**	5,781

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

Notes forming part of these accounts appear on **pages 96 to 103**.

Statement of financial position as at 31 March 2011

	Notes	31 March 2011 £m	31 March 2010 £m (re-stated)	1 April 2009 £m (re-stated)
Current Assets				
Trade and other receivables	5	**65**	144	26
Cash and cash equivalents	6	**154**	72	47
Total Current Assets		**219**	216	73
Current Liabilities				
Deferred revenue	7	**(2,585)**	(2,523)	(2,509)
Trade payables	7	**(16)**	(28)	(11)
Total Current Liabilities		**(2,601)**	(2,551)	(2,520)
Total Net Liabilities		**(2,382)**	(2,335)	(2,447)
Represented by:				
Balance on Consolidated Fund Account as at 31 March 2011	8	**(2,382)**	(2,335)	(2,447)

Notes forming part of these accounts appear on **pages 96 to 103**.

Simon Tse
Accounting Officer and Chief Executive DVLA
22 June 2011

Statement of cash flows for the year ended 31 March 2011

	2010-11 £m	2009-10 £m (re-stated)
Net cash flow from revenue activities	5,939	5,694
Cash paid to Consolidated Fund	(5,857)	(5,669)
Increase in cash in this period	82	25

Notes to the statement of cash flows

Reconciliation of Net Cash Flow to Movement in Net Funds

	2010-11 £m	2009-10 £m (re-stated)
Net revenue for the Consolidated Fund	5,810	5,781
Decrease/(Increase) in trade and other receivables	79	(118)
Increase in trade and other payables	50	31
Net cash flow from revenue activities	5,939	5,694

Analysis of Changes in Net Funds

	Notes	2010-11 £m	2009-10 £m (re-stated)
Increase in cash in this period		82	25
Net Funds as at 1 April	6	72	47
Net Funds as at 31 March	6	154	72

Notes forming part of these accounts appear on pages 96 to 103.

Notes to the Trust Statement

Note 1. Statement of Accounting Policies

Basis of accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under the Exchequer and Audit Departments Act 1921. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between Driver and Vehicle Licensing Agency, Department for Transport 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 and associated expenditure contained in these statements are those flows of funds which DVLA handles on behalf of the Consolidated Fund and where it is acting as agent rather than as principal.

The Trust Statement has been prepared on a going concern basis although the Statement of financial position shows total net liabilities, as the entire balance of the Statement is due to HM Treasury.

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

Accounting convention

These accounts have been prepared in accordance with the historical cost convention.

Changes in accounting policies applied for the first time in the current period

Accounting for Consolidated Fund revenue

The 2010-11 Government Financial Reporting Manual introduced the Trust Statement for revenue (and some associated expenditure) collected by the Agency that is due to the Consolidated Fund. Vehicle Excise Duty (VED) enforcement income is now brought to account in the Agency's Trust Statement in addition to the VED previously disclosed in the VED account. The 2009-10 VED Account has been restated to accommodate these additional reporting requirements. Prior to the re-statement the amounts below relating to Fines and Penalties were not included in the Trust Statement.

	2009-10	1 April 2009
	£m	£m
Fine income receipts (gross)	59	–
Amounts written off	(17)	–
Vehicle Excise Duty debtors	44	33
Provision for bad debts	(10)	(9)
Balance on Consolidated Fund Account	(34)	(24)

General Accounting Policies

Revenue

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

- A taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the Exchequer. A taxable event occurs when a liability arises to pay a tax or licence fee. Licence fees are deemed to accrue evenly over the period for which the licence is valid. Repayments are accounted for on a cash basis and recognised in the year in which payment is made.
- A penalty is validly imposed and an obligation to pay arises.

Late Licensing Penalty (LLP) letters are issued to vehicle keepers who fail to relicense or declare Statutory Off Road Notification (SORN) within two months of licence expiry. Fine payments are collected throughout the Local Services Network (LSN), Continuous Registration Enforcement Centres and DVLA Contact Centre. DVLA also employs debt collectors to recover fines not recovered directly.

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

Business Accounts

The following transactions are accounted for in the preceding Business Accounts and are covered by its related accounting policies:

a. Fixed assets

b. Losses and abandoned enforcement cases

c. Cost of collection and enforcement of VED

Bad and Doubtful Debts

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

Evasion

The costs of VED evasion are outside the scope of the Trust Statement. Evasion is discussed more fully in the Management Commentary.

VED Exemption

The VED financial implications of exemption have been estimated for the Trust Statement and are discussed in greater detail in Note 9. Exemption is also outside the scope of the Trust Statement.

Related Party Disclosure

The Agency is part of the Department for Transport. It has a large number of VED transactions with both Local and Central Government bodies; at present these are not separately identifiable by DVLA.

Deferred Income

Deferred income in respect of the Post Office®, Automatic First Registration and Licensing, Electronic Vehicle Licensing and Fleets is based on the data collected at source using the period of the Vehicle Excise Duty licence purchased. Deferred income in respect of Local Offices is based on the licensing renewal pattern for the Post Office®. Management estimate the level of error arising from this approximation to be de minimis. A proportion of the deferred income balance will be claimed as a refund of duty during 2010-11. The value of refund for 2010-11 is set out in Note 2.

Note 2. Analysis of gross Vehicle Excise Duty collected by Channel

The way in which transactions are being processed is changing significantly, with a major shift from face to face to electronic channels (please refer to the Management Commentary).

	2010-11	2009-10
	£m	£m
Face to Face:		
Post Office®	**2,846**	3,059
Local Services Network	**345**	353
Sub Total	**3,191**	3,412
Electronic channels:		
Electronic Vehicle Licensing	**2,421**	2,148
Motor Manufacturing	**257**	251
Fleet Operators	**109**	128
Telephone Relicensing	**5**	4
Sub Total	**2,792**	2,531
Amounts refunded	**(201)**	(201)
Total	**5,782**	5,742

Note 3. Analysis of Vehicle Excise Duty enforcement fines and penalties collected by channel

	Late Licensing Penalty Letters		Traditional Enforcement		Wheelclamping		Totals	
	2010-11	2009-10	**2010-11**	2009-10	**2010-11**	2009-10	**2010-11**	2009-10
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Offences in:								
2008-09	**–**	–	**–**	–	**–**	–	**–**	–
2009-10	**–**	42	**2**	12	**–**	8	**2**	62
2010-11	**32**	–	**10**	–	**8**	–	**50**	–
Commission paid	**(3)**	(3)	**–**	–	**–**	–	**(3)**	(3)
Total	**29**	39	**12**	12	**8**	8	**49**	59

Late Licensing Penalties collected by debt collectors are included in the Late Licensing Penalty Letter figures. Amounts collected by debt collectors were £8.4 million in 2010-11 (2009-10: £9.3 million). DVLA and HM Treasury have agreed special payment arrangements for debt collectors. Their commission is paid from the fine income that they collect and the net amount is remitted to DVLA.

Note 4. Payments to HM Revenue and Customs – shipbuilders relief

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

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

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

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

During 2010-11 DVLA made shipbuilders' relief payments to HMRC of £1.324 million (2009-10: £1.320 million).

Note 5. Trade and other receivables

Amounts due

	31 March 2011 £m	31 March 2010 £m	1 April 2009 £m
Vehicle Excise Duty (VED)	**48**	110	2
VED Enforcement	**27**	44	33
Total before estimated impairments	**75**	154	35
Less estimated provision for impairments	**(10)**	(10)	(9)
Total	**65**	144	26

VED receivables include:

- Motor Trade receivables (Automated First Registration & Licensing (AFRL) dealers) of £Nil (31 March 2010: £0.018 million; 1 April 2009: £Nil)
- Dishonoured cheque debtors of £2.1 million (31 March 2010: £2.2 million; 1 April 2009: £2.0 million)
- Other sundry receivables of £Nil (31 March 2010: £0.006 million; 1 April 2009: £0.072 million)
- VED income of £41.5 million collected by the Post Office® in 2010-11 but paid to DVLA in 2011-12 (2009-10: £108.0 million; 1 April 2009: £Nil)
- VED income of £4.8 million processed through local offices in 2010-11 but paid to DVLA in 2011-12 (2009-10: £Nil; 1 April 2009: £Nil).

The VED Enforcement receivables include:

- Continuous Registration Fines and Penalties of £19.2 million (31 March: £23 million; 1 April 2009: £21 million) due from those on whom financial penalties have been imposed but not paid at that date;
- A debtor of £7.6 million (31 March 2010: £21 million; 1 April 2009: £12 million) relating to fines and penalties cash collected in the Business Accounts and due to the Trust Statement.

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

Change to impairments

	2010-11 £m	2009-10 £m
Balance as at 1 April	**10**	9
Change in estimated value of impairments	**–**	1
Balance as at 31 March	**10**	10

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A provision is made for potential bad debts based on the value of open cases as at 31 March 2011 and historical data on recovery of Vehicle Excise Duty and enforcement debtors. Debtors in the balance sheet are reported after the deduction of the estimated value of these impairments.

A provision of 10 per cent is made for doubtful dishonoured cheque VED cases resulting in a movement of £0.007 million in 2010-11 (2009-10: £0.028 million).

Credit losses – amounts written off

	2010-11	2009-10
	£m	£m
VED	**2**	2
VED Enforcement	**18**	16
Change in the value of impairments	**–**	1
Total	**20**	19

Amounts written off in repect of VED include:

- £0.522 million for cases where the Agency is unable to trace the offender (2009-2010: £0.494 million);
- £0.979 million for cases of successful prosecutions in court where the revenues were collected by the Home Office (2009-2010: £0.992 million);
- £0.657 million where the applicant returned the VED licence disc and this was voided (cancelled) (2009-10: £0.571 million);

Amounts written off in respect of VED Enforcement relate to waived and abandoned fines and penalties during 2010-11.

Note 6. Cash and cash equivalents

	31 March 2011	31 March 2010	1 April 2009
	£m	£m	£m
Government Banking Service	**154**	72	47
Total	**154**	72	47

Note 7. Trade and other payables

	Trade Payables as at 31 March 2011	Deferred Revenue as at 31 March 2011	Total as at 31 March 2011	31 March 2010	1 April 2009
	£m	£m	£m	£m	£m
Vehicle Excise Duty	–	2,585	2,585	2,523	2,509
Motor trade creditors	5	–	5	14	6
Other	11	–	11	14	5
Total	16	2, 585	2, 601	2,551	2,520

Motor trade creditors are where customers hold pre-payment accounts, or payments have been made but the service has not yet been provided. Also included in this figure is income received in advance from Fleet Operators 2010-11 £Nil (2009-10: £8.9 million; 1 April 2009: £Nil). Other creditors include a creditor of £11 million relating to cash collected in the Trust Statement and due to the Business Accounts. (2009-10: £14 million; 1 April 2009: £5 million).

Vehicle Excise Duty (VED) is paid in advance. The deferred revenue balance relates to income received in 2010-11 for VED which relates to 2011-12.

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

Note 8. Balance on Consolidated Fund Account

	2010-11	2009-10
	£m	£m
Balance as at 1 April	(2,335)	(2,447)
Net Revenue for the Consolidated Fund	5,810	5,781
Less amount paid to Consolidated Fund	(5,857)	(5,669)
Balance on the Consolidated Fund Account as at 31 March	(2,382)	(2,335)

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Note 9. Exemptions

Some vehicles are exempt from Vehicle Excise Duty (VED). These are categorised and are shown below at summary level. An estimated value has been attributed to the average volumes of exempt vehicles held on the Vehicle Register during 2010-11.

2010-11 Exempt Category	**PLG**	**LGV**	**Others**	**Total**
	£m	**£m**	**£m**	**£m**
Vehicles issued with a nil value licence:				
– Disabled	181	–	3	184
– Historic	35	7	3	45
– Other	11	4	4	19
Vehicles exempt from holding a Vehicle Excise Duty licence *	14	5	5	24
Former Special Concessionary Group **	19	50	2	71
Total	**260**	**66**	**17**	**343**

2009-10 Exempt Category	PLG	LGV	Others	Total
	£m	£m	£m	£m
Vehicles issued with a nil value licence:				
– Disabled	190	–	7	197
– Historic	36	7	4	47
– Other	12	4	6	22
Vehicles exempt from holding a Vehicle Excise Duty licence *	15	5	9	29
Former Special Concessionary Group **	19	50	4	73
Total	272	66	30	368

* – These include ambulances, fire engines and crown vehicles

** – These include agricultural vehicles

The estimated value for LGV vehicles issued with a nil value licence for disabled was £0.4 million in 2010-11 (2009-10: £0.4 million)

Vehicles held in the trade and vehicles registered as Statutory Off Road Notification (SORN) are not liable to VED. The average number of vehicles registered as SORN during 2010-11 was 1.7 million (2009-10: 1.7 million).

Note 10. Events after the reporting period

These financial statements are laid before the Houses of Parliament by the Comptroller & Auditor General (C&AG).

There have been no events since the balance sheet date that impact on the understanding of these financial statements.

Appendix 1

Vehicle Excise Duty

The Comptroller and Auditor General's Report to the House of Commons

Summary

Background

1. The Driver and Vehicle Licensing Agency (the Agency) is responsible for the collection of Vehicle Excise Duty on behalf of the Secretary of State for Transport. In 2010-11, £5.7 billion (2009-10: £5.7 billion) of revenue was collected by the Agency, as reported in the Agency's Trust Statement [1], and £5.8 billion was paid over to the Exchequer. Vehicle Excise Duty is a vehicle road use tax levied as an excise duty which must be paid for most types of vehicle which are to be used (or parked) on the 'public roads' in the United Kingdom.

Scope of Audit

2. Section 2 of the Exchequer and Audit Departments Act 1921 requires me, as the Comptroller and Auditor General (C&AG), to examine the Vehicle Excise Duty revenue accounts to ascertain that the Agency has in place adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. I am also required by that Act to examine the correctness of the sums brought to account and to report the results to the House of Commons. My audit opinion on the Agency's Trust Statement and this report together satisfy that requirement.
3. My team has examined the systems and obtained evidence on the adequacy and operation of its regulations and procedures. My conclusion on the Agency's overall management of the Vehicle Excise Duty systems is based on this examination, as well as taking into account evidence from our audit of the Trust Statement itself and information from other sources, including, for example, consideration of the Agency's Statement on Internal Control.
4. This report records the outcome of my team's review and my conclusions as to the adequacy of the systems in place during 2010-11.

Conclusion

5. Whilst recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, I have concluded that, in 2010-11, the Agency has framed adequate regulations and procedures to secure an effective check on the assessment, collection and proper allocation of revenue, and that they were being duly carried out.

1 In previous years the Trust Statement was known as the "VED Account" and only reported the tax revenue from Vehicle Excise Duties. From 1 April 2010, the Trust Statement replaced the VED Account and also includes the financial reporting of fines and penalties arising from the compliance and enforcement activities associated with VED collection.

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Summary of Key Findings

6. Based on their examination, my team found that:

- The systems in place for collecting Vehicle Excise Duty through a range of channels, including Post Office® branches, Local Offices, Electronic Vehicle Licensing and Motor Dealers, are robust and have operated effectively throughout the year. Whilst my staff did not identify any major control weaknesses, they did suggest several recommendations to strengthen the systems, particularly on IT access and delegated responsibilities. The Agency was aware of these issues, via its own financial risk review carried out in 2010-11. The findings made by my staff and their conclusions served to reinforce the importance of the recommendations and remedial actions that the Agency had already started to act upon. In some instances, the Agency has put in place manual processes to address the issues identified. The Agency, however, acknowledges that an automated controls solution is required and that this will need to align with any future IT infrastructure changes. A project has been commenced by the Agency (known as the Identity and Access Management Systems) to address a number of the Agency's business needs including the issues identified by my staff.
- For 2010, the Department for Transport estimated that Vehicle Excise Duty was evaded on 0.9 [2] per cent of vehicles (2009: 0.7 per cent). Although the Department has continued to refine its estimation methodology, further work is being considered to ensure that the sample remains representative. Notwithstanding the slight increase, the low level of estimated evasion provides further evidence that the Agency has a robust system for the collection of Vehicle Excise Duty revenue.
- The Agency uses a number of measures to deter and detect Vehicle Excise Duty evasion, ranging from sending out reminder letters to issuing penalty notices. The percentage of penalty notices pursued by the Agency has increased from 14 per cent in 2007-08 to 67 per cent in 2010-11. However, the proportion of those pursued who do not pay has also increased from 10 per cent to 53 per cent over the same period, indicating that the Agency needs to do more to increase the amount it collects from the cases it pursues.
- The introduction of reminder letters, in April 2010, has contributed to a reduction in penalty notices issued, from 813,000 in 2009-10 to 584,000 in 2010-11, a fall of 28 per cent, and therefore has been effective in tackling non-compliance. The 2007 Comprehensive Spending Review set the Agency a target for 2008-2011 to collect £100 million of Vehicle Excise Duty, over the three year period, through direct enforcement action. As at 31 March 2011 the amount collected was £109.5 million.

2 This is the estimated evasion rate of unlicensed vehicles in stock Great Britain. Estimates are subject to statistical uncertainty. The Department has calculated the estimate to lie within a range of between 0.8 per cent and 1.0 per cent. This indicates a collection rate of between 99.2 per cent and 99.0 per cent. The 95 per cent confidence interval will be narrower than the figures.

Full Report

Collection Process

7. Vehicle Excise Duty is a vehicle road use tax levied as an excise duty which must be paid for most types of vehicle which are to be used (or parked) on the 'public roads' in the United Kingdom.

8. In 2010-11, the Agency collected £5.7 billion from Vehicle Excise Duty. Since 2007-08, the net outturn has risen each year, and in the past two years the Agency has met or exceed the forecast in the Annual Budget Report, as shown in **Figure 1**.

Figure 1: Net Receipts and Budget Forecast for Vehicle Excise Duty, 2007-08 to 2010-11

	2007-08	2008-09	2009-10	2010-11
Net Outturn (£ billion)	5.2	5.5	5.7	5.7
Forecast (£ billion)	5.6	5.6	5.6	5.7

Source: Driver and Vehicle Licensing Agency and HM Treasury Reports

9. There are several different channels by which Vehicle Excise Duty is collected, as set out in **Figure 2**. The Agency has made progressive, but nonetheless significant changes, over recent years to the way in which it collects Vehicle Excise Duty. These changes include an increased use of its online facilities (Electronic Vehicle Licensing) as a collection channel, which the Agency estimates accounted for 41 per cent of total Vehicle Excise Duty payment transactions, representing some 19 million transactions, in 2010-11.

Figure 2: Analysis of Methods of Vehicle Excise Duty Payments, 2007-08 to 2010-11

	2007-08		2008-09		2009-10		2010-11	
	Volume (000)	**Percentage**	**Volume (000)**	**Percentage**	**Volume (000)**	**Percentage**	**Volume (000)**	**Percentage**
Fleets	1,113	2	1,281	3	1,239	3	1,150	2
Post Office®	28,538	62	26,076	57	23,230	51	22,476	49
Local Office	1,644	4	1,522	3	1,379	3	1,377	3
AFRL	2,576	6	2,075	4	2,211	5	2,129	5
Electronic Vehicle Licensing	12,120	26	15,114	33	17,613	38	18,891	41
Total	45,991	100	46,068	100	45,672	100	46,023	100

Source: Driver and Vehicle Licensing Agency

10. The emphasis for the Agency is to move from paper to electronic transactions, where this is cost effective, and to encourage the public in this direction by making the processes more customer-friendly. The Agency has adopted a number of positive initiatives to encourage its customers to use its online facility. These include, for example, explicitly promoting online services in its Vehicle Excise Duty renewal reminder letters and through the Vehicle Excise Duty application and renewal forms.

11. The Agency is currently exploring ways for increasing further the take up of electronic services. The 2011-12 Business Plan sets out the Agency's aim to increase online activity. For Vehicle Excise Duty payments and Statutory Off Road Notifications [3], the target is to increase online activity from 49 per cent in 2010-11 to 52 per cent in 2011-12.

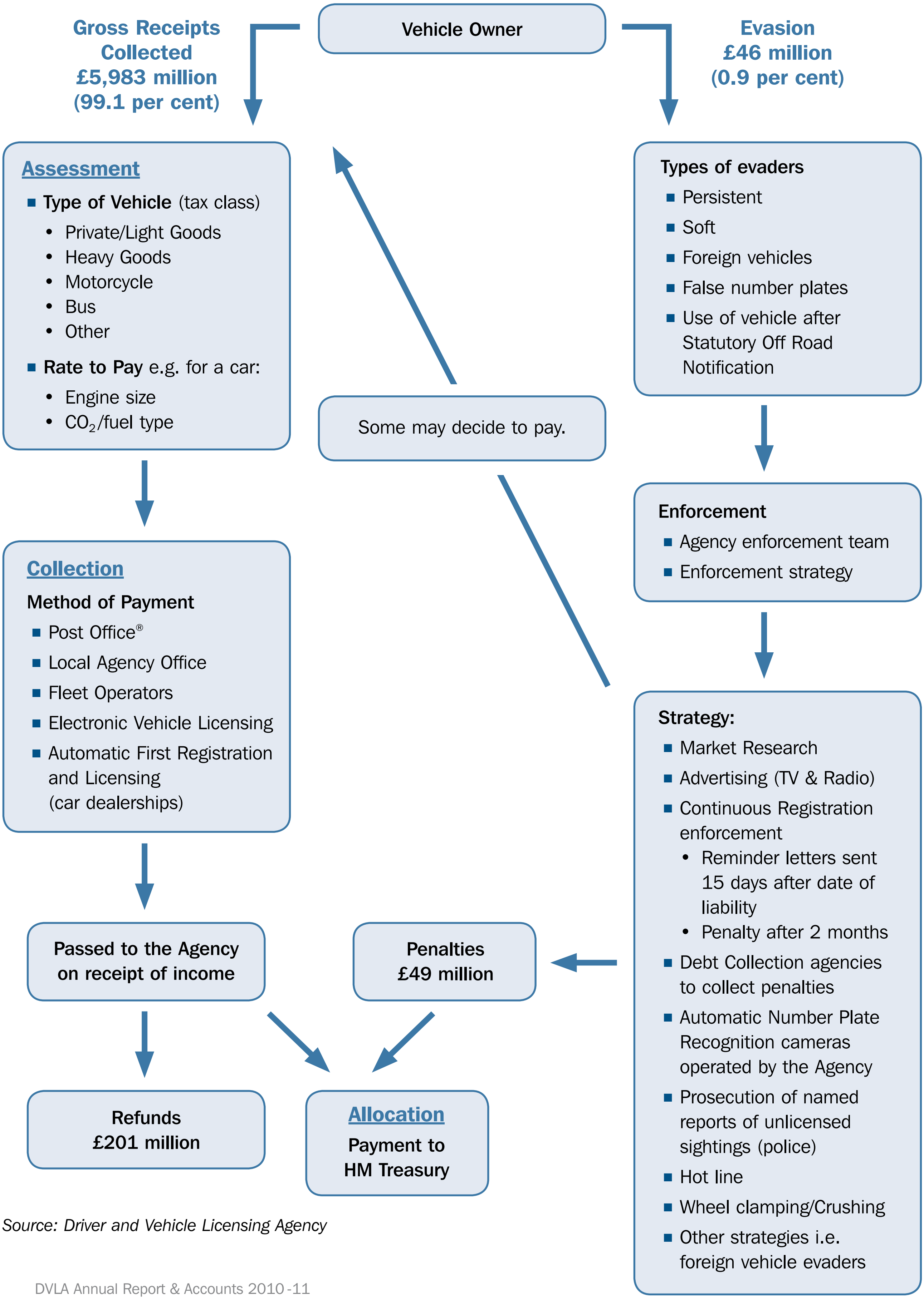
12. The relocation of the Northern Ireland vehicle register systems to Swansea in 2009-10, should enable the Agency to develop online services for vehicle owners in Northern Ireland. In addition, the Agency has improved its electronic system for re-licensing fleet vehicles and is looking to increase the type of vehicles that can be licensed via this system.

13. The Agency's encouragement of online activity is also an integral part of its strategy to make compliance easier for vehicle keepers by removing, in most cases, the need to gather documents together and physically visit a Post Office® branch to re-licence the vehicle.

14. The Agency's Vehicle Excise Duty System comprises a number of sub-processes and systems, as set out in the overview at **Figure 3**.

3 Where an owner has declared a vehicle as being kept off the road, the vehicle must be subject to a Statutory Off Road Notification.

Figure 3: The Agency's Vehicle Excise Duty System



Source: Driver and Vehicle Licensing Agency

Financial Risk Review

15. The Cross Government Financial Systems Risk Review Project was started in 2008. As part of this project a detailed risk review was performed on the Agency's Vehicle Excise Duty system in April and May 2010.

16. This review was aimed at establishing whether there were any vulnerabilities within the Vehicle Excise Duty system that might expose the Agency to potential financial loss. The objectives of the review were to:

    - Develop process maps and process flow diagrams at a suitable level to support the determination of risks and controls.
    - Carry out an assessment of inherent and residual risk for the process.
    - Develop a report for process management providing a summary of the results of the review and outlining residual risks and recommendations to improve the implementation of controls.

17. The review primarily focussed upon the Electronic Vehicle Licensing system responsible for re-licensing and Statutory Off Road Notification transactions. The results and findings from the review were communicated to the Agency's senior management in a report. I have used this work as a baseline for my team's examination of the Vehicle Excise Duty revenue systems because the nature of the review was broadly consistent with the principal aims and objectives of our revenue systems audit. In particular, my staff investigated further the areas identified for improvement by the review. They also carried out further work to enhance their understanding of the other collection channels such as Telephony, Postal, Automatic First Time Registration and Licensing, the Agency's own local offices, and business partners such as Fleet Managers who manage Vehicle Excise Duty as agents for the Agency.

18. This work together with other transactional work undertaken by my staff, confirmed that the systems are robust and have operated effectively throughout the year. No major control weaknesses were identified during the 2010-11 financial year.

19. My team was satisfied that the Agency has taken reasonable steps to address the recommendations made in the Financial Systems Risk Review although they noted that some actions were outstanding at the time of our audit. The review highlighted some security concerns in the main IT system supporting the collection of Vehicle Excise Duty. This system controls much of the end–to-end processing of Vehicle Excise Duty transactions and holds master data including Vehicle Excise Duty tax tables, and tax band and vehicle Co_2 and engine capacity data which directly impacts on vehicle tax liabilities. Individual vehicle-specific information such as Vehicle Excise Duty payment and penalty status is also held.

20. The Review classified the identified security issues as high risk because, together, they could increase the risk of fraud and error in Vehicle Excise Duty transaction processing. At the time of the review, the Agency had already initiated a solution – known as the Identity and Access Management Systems project – which is intended to incorporate a range of control processes, including activity logging and monitoring, reviews of user access appropriateness and the strengthening of user authentication that will address the security vulnerabilities raised in the review. The Agency intends to implement the project by March 2012.

21. HM Treasury has issued the methodology underpinning the Financial Systems Risk Review as a toolkit for wider use across Whitehall. The Agency is currently working with the Department for Transport to ensure that its implementation of the new toolkit is in line with the Department's wider response; and that it continues to be used to test periodically the financial systems supporting the Vehicle Excise Duty, so that the review does not simply become a one off event.

Compliance and Enforcement

22. The Agency's approach to achieving compliance focuses on making it easy for the motorist to comply and only resorting to enforcement measures when the motorist disregards reminders and is clearly intent on not complying. Its aim, through enforcement action, is to limit tax evasion through non-compliance to less than £50 million.

Estimated levels of compliance

23. Each year, the Department for Transport carries out a Roadside Survey to estimate the level of vehicle owners' compliance with the requirement to pay Vehicle Excise Duty. The Roadside Survey is the best available evidence of the effectiveness of the Agency's collection procedures and provides strong assurance that there are effective procedures in place.

24. The 2010 Roadside Survey, which took place in June, covered over 1.5 million vehicles, observed at 256 sites across Great Britain and Northern Ireland. The number plates of these vehicles were read and matched to the Agency's vehicles database. The Department used this information to estimate the level of evasion by vehicle owners and the value of Vehicle Excise Duty not collected. The Department published the results of the Survey in the *Transport Statistics Bulletin: Vehicle Excise Duty Evasion 2010*, in December 2010.

25. The 2010 survey indicated that, if the results were typical of the level of compliance throughout the 2010-11 financial year, Vehicle Excise Duty was evaded on 0.9 per cent of vehicles (2009 0.7 per cent) with a loss of around £46 million (2009: £32 million), as described in **Figure 4**. It should be noted, however, that a proportion of that revenue apparently evaded will be recovered through the Agency's enforcement activity or through the back-licensing of vehicles to cover the untaxed period.

Figure 4: Department for Transport's Estimate of Vehicle Excise Duty Revenue Lost in Great Britain

Note

All estimates are subject to statistical uncertainty. For 2010-11 the £46 million estimates falls with a range of £42 million to £51 million representing 0.8 per cent and 0.9 per cent of total revenue respectively. This indicates a collection rate of between 99.2 per cent and 99.1 per cent. [4]

Source: Transport Statistics Bulletins: Vehicle Excise Duty Evasion

26. The evasion figures are understated slightly owing to the exclusion of Vehicle Excise Duty lost through evasion in Northern Ireland. It is not possible to estimate reliably the evasion that takes place in Northern Ireland because of the small sample sizes used in the Northern Ireland component of the roadside surveys. However, the Department intends to carry out further investigations to see if the statistics for Northern Ireland can be incorporated in future estimates. Northern Ireland results would not, however, be expected to have a significant impact on the estimated evasion rates as Vehicle Excise Duty collected in Northern Ireland accounted for only £163.5 million (3 per cent) of the gross £5,900 million collected in 2010-11.

27. There has been a slight increase in the estimated evasion rate from 0.7 per cent in 2009-10 to 0.9 per cent in 2010-11. This is still broadly in line with the Agency's own evasion estimates. My team has been informed by the Agency that it will continue to target persistent evaders and is currently in the process of further refining its range of enforcement measures. Work to address the key characteristics of evasion identified in the survey is already underway and the results will be used to influence the Agency's enforcement approach.

4 The 95 per cent statistical confidence intervals will be narrower than these figures. Additional uncertainty arises from the use of a survey in the month of June to make an estimate for the whole of 2010-11. This uncertainty does not, however, affect our overall assessment of the effectiveness of the systems in place.

28. In 2009-10, I stated that the Department considered that the existing methodology for its Roadside Survey was sufficiently robust and reliable and that further major redesign would not offer value for money at that time. However, the Department had planned some work to look at factors such as the distribution of survey sites and how minor road sites were weighted to ensure that the sample remained representative.

29. I can now report that the Department has refined its methodology by adjusting the weighting of minor roads and minor amendments to statistical confidence levels. Despite these improvements, the Department recognises that there are still areas of uncertainty, with scope for possible further improvement. The Department has informed my staff that it will keep all aspects of the survey process under review with the aim of addressing these issues.

Compliance Measures

30. The Agency uses a range a measures to encourage compliance and to detect and curb evasion:
    - **Marketing** – This has been used to remind motorists of the importance of licensing their vehicles and the consequences for not doing so. Detailed analysis of previous advertising campaigns has been conducted to establish their effectiveness in encouraging compliance and the results are being used to inform the Agency's future advertising and publicity campaigns.
    - **Management Information** – An enhanced management information system has been developed and is being used to inform in detail the nature of Vehicle Excise Duty evasion. The Agency has informed us that it intends to develop the use of this information for its marketing policy.
    - **Reminder letters** – These were introduced from April 2010 as a permanent feature of the Vehicle Excise Duty compliance strategy, following the success of earlier trials and contributed to a reduction in penalties issued, from 813,000 in 2009-10 to 584,000 in 2010-11 (**Figure 5**). This initiative has been extended to include vehicles, which are observed on the road while declared as off road, via the Statutory Off Road Notification process.
    - **Automatic Number Plate Recognition (ANPR)** – The Agency currently operates mobile and static Automatic Number Plate Recognition units throughout the UK, gathering sightings of unlicensed vehicles. This information is used to initiate further action. Operations are being developed using the Agency's static camera system and the Agency is considering the potential utilisation of third party Automatic Number Plate Recognition to increase compliance by notifying unlicensed keepers that they have been seen on the road.

31. When reminders and initial contacts have failed to deliver a positive response, the following measures are implemented:
    - Penalty notices;
    - Prosecution; and
    - wheel-clamping, as a final but physical intervention.

32. Since 2007-08, the Agency has predominantly enforced the collection of the late licensing penalties through debt collection agents as the civil courts proved cumbersome and expensive to use with limited effectiveness (**Figure 5**).

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Figure 5: Late Licence penalties issued and collected – 2007-08 to 2010-11

	2007-08		2008-09		2009-10		2010-11	
	Cases 000s	Proportion of Notices Issued (percentage)	Cases 000s	Proportion of Notices Issued (percentage)	Cases 000s	Proportion of Notices Issued (percentage)	Cases 000s	Proportion of Notices Issued (percentage)
Late Licensing Penalties Issued	1219		1070		813		584	
Of which paid without further action	473	39	397	37	286	35	173	30
Pursued to Court	7	1	2	<1	2	<1	1	<1
Of which paid	7	1	2	<1	2	<1	1	<1
Cases sent to debt collectors	159	13	469	44	446	55	394	67
Of which paid	37	3	117	11	122	15	85	15
Penalties Not Paid and not Pursued	580	48	202	19	79	10	16	3
Sub Analysis								
Total Penalties paid	517	42	516	48	410	50	259	44
Penalties Pursued either through courts or by Debt Collectors	166	14	471	44	448	55	395	68
Of which pursued but not paid	122	10	352	33	324	40	309	53
Penalties Not Paid and not Pursued	580	48	202	19	79	10	16	3

Source: Driver and Vehicle Licensing Agency

33. The percentage of penalty notices pursued by the Agency has increased from 14 per cent in 2007-08 to 67 per cent in 2010-11. However, the proportion of those pursued who do not subsequently pay, has also increased from 10 per cent to 53 per cent over the same period, indicating that the Agency needs to do more to increase the collection rate from the cases it pursues.

Effectiveness of compliance Activity

34. The 2007 Comprehensive Spending Review set the Agency a target for 2008- 2011 to collect £100 million in Vehicle Excise Duty, over the three year period, through direct enforcement action. The Agency measures this target by scanning the vehicle register to identify vehicles re-licensed following enforcement action. As at 31 March 2011, the amount collected was £109.5 million. The Agency's aim from April 2011 onwards, through enforcement action, is to limit evasion through non-compliance to less than £50 million.

Working with Others

35. The Agency uses its technology to work closely with other approved organisations such as the Department for Work and Pensions, UK Border Agency and the insurance industry. In addition to enhancing processing, data sharing is used to frustrate fraudulent activity.

36. The Agency encourages local authorities to adopt devolved powers to take direct enforcement action against unlicensed vehicles. To date, 69 local authorities and nine police forces have taken up devolved powers and in 2009 collectively, they took action against over 23,000 untaxed vehicles in addition to those dealt with by the Agency. The Agency has indicated that it will continue to encourage more local authorities and police forces to become involved in supporting compliance activity.

Governance Arrangements

37. My staff examined the governance arrangements and found that these were reasonable. Central to these arrangements is the Vehicle Excise Duty Collection and Enforcement Governance Committee, comprising members from the Department, the Agency and HM Treasury, who oversee the collection of Vehicle Excise Duty. The Committee meets quarterly. Its role is to provide an effective challenge function to ensure the adequacy of the Agency's procedures for the collection of Vehicle Excise Duty.

Follow Up on audit recommendations from previous years

38. Since 2008-09, my predecessors and I have made a number of recommendations to the Agency designed to assist the Agency in improving the regulation and procedures for managing the assessment, collection and allocation of Vehicle Excise Duty tax revenue. The suggestions that we have made since 2008-09 are recorded in **Figure 6** and focus around two key themes: improvements to the roadside survey and strengthening compliance measures. My staff have confirmed, through their audit procedures, that the Agency has taken the necessary action to enact the recommendations or have found that the Agency is in the process of implementation.

Figure 6: Follow up of previous NAO recommendations

Key Issue	Progress to Date
Roadside Survey Improvements	■ The Department has refined further its methodology by adjusting the weighting of minor roads and minor amendments to the statistical confidence levels. Despite these improvements, the Department recognises that there are still areas of uncertainty with scope for possible further improvement. These include some marked year-on-year volatility of certain estimates, such as for motorcycle evasion estimates. ■ The number plates of motorcycles are still recorded manually due to difficulties in using Automatic Number Plate Recognition technology. As a result of the decreased accuracy of manual data collection and the reduced number of sites providing reliable data, the evasion estimate for motorcycles is less certain than for other vehicle types. However, the Department estimated the amount of Vehicle Excise Duty lost due to evading motorcycles is small, at between £1 and £3 million. ■ The extent of the Agency's enforcement activity is only partly driven by the roadside survey result, as it monitors a number of monthly performance indicators calculated from its Automatic Number Plate Recognition results, the number of late licensing penalty letters and financial measures. These indicators and measures are not independent or fully objective, but it allows the Agency to monitor evasion on an ongoing basis rather than rely on retrospective measures. The Agency's own Automatic Number Plate Recognition data, which is based on a larger sample, also indicates that the estimated level of evasion is less than 1 per cent.
Strengthening Compliance Measures	■ The Agency's Compliance Strategy was refreshed in 2010-11. An enhanced management information system has been developed and is being used in parallel with commercially available demographic profiling software, to inform the nature of Vehicle Excise Duty evasion and to determine the most effective response. ■ In 2009, the Agency successfully tested the use of a 'late reminder letter', sent to vehicle keepers two weeks after the expiry of their tax but prior to enforcement action, which increases compliance rates by providing a timely prompt to those who overlooked the need to re-license. The reminder was introduced as part of the Agency's routine interaction with customers in April 2010.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP
29 June 2011

Appendix 2

Accounts direction given by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973

1. This direction applies to the trading funds listed below.
2. These trading funds shall prepare accounts for the year ended 31 March 2011 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual ('the FReM') issued by HM Treasury which is in force for 2010-11.
3. The accounts shall be prepared so as:
   (a) to give a true and fair view of the state of affairs as at 31 March 2011 and of the income and expenditure, changes in taxpayers' equity, and cash flows of the trading fund for the year then ended;
   (b) to provide disclosure of any material income or expenditure that has not been applied to the purposes intended by Parliament, or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the Government financial reporting manual (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.

Chris Wobschall
Head, Assurance and Financial Reporting Policy
Her Majesty's Treasury
22 December 2010

Application Of Accounts Direction

This account direction applies to the following trading funds.

	Name
01	Central Office of Information
02	Companies House
03	Defence Science and Technology Laboratory
04	Driver and Vehicle Licensing Agency
05	Driver Standards Agency
06	Defence Support Group
07	FCO Services
08	Fire Service College
09	HM Land Registry
10	Met Office
11	Medicines and Healthcare Products Regulatory Agency
12	OGC buying solutions
13	Ordnance Survey
14	UK Intellectual Property Office
15	Royal Mint
16	UK Hydrographic Office
17	Queen Elizabeth II Conference Centre
18	Vehicle and Operator Services Agency

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

1. This direction applies to those Trading Funds listed below.

2. The Trading Fund shall prepare a Trust Statement ('the Statement') for the financial year ended 31 March 2011 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 2010-11.

3. The Statement shall be prepared, as prescribed in appendix below, 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 2 of the Exchequer and Audit Departments Act 1921 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
22 December 2010

Trust Statement for the year ended 31 March 2011

The Trust Statement shall include:

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

The Notes shall include among other items:

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

No	Sponsoring Department	Income Stream	Responsible Entity
01	Department for Transport	Vehicle Excise Duty (VED) and VED enforcement i.e. fines and penalties	DVLA

Appendix 3

Sustainable Development

Area	Figure 2010-11	SOGE Target Performance 2010-11
Carbon dioxide emissions from buildings	Data being analysed by Cabinet Office	7484 tonnes
Carbon dioxide emissions from administrative road travel [1]	419 tonnes	681 tonnes
Carbon saving expenditure	£61,500	
Total waste	2,123.69 tonnes	2508 tonnes
Office waste	2,123.69 tonnes	2508 tonnes
Total general waste management expenditure [2]	N/A	
Water consumption	56,432 m^3	48,402 m^3
Water & Sewerage expenditure	£138,237	
Buildings energy consumption	50,570,777 KWh	
Total energy expenditure	£2,223,140	

Industry/sector benchmarking

DVLA has participated in the OGC IPD property benchmarking schemes for the last six years.

During the 2009-10 review, reported in November 2010 overall DVLA environmental sustainability performance was reported as 93 per cent of our occupied space ahead of benchmark. The statement reported that:

The Agency's 'Environmental sustainability performance score represents performance ahead of private sector average.... The environmental impact of office space has improved since last year.

The assessment of environmental sustainability is split between measures of environmental impact and an assessment of environmental management practices. The metrics used to reflect the environmental impact of space are expressed in the context of office based FTE staff and present the impacts levied by carbon, water use and non-recycled waste (from buildings). The assessment of management practices aims to simply indicate the presence of processes in occupied space.'

1 This includes all administrative road travel and excludes operational travel such as DVLA Automated Number Plate Recognition (ANPR) Vehicles.

2 Waste expenditure is part of the agency PFI unitary charge and is not available.

Waste			2008-09	2009-10	2010-11	Target 2010-11
Non-Financial Indicators (t)	Total waste (Minimum Requirement)		2196.48	2195.85	2,136.03	2508
	Hazardous Waste	Total	0.00	0.07	0.00	0.00
	Non hazardous waste	Landfill	646.68	610.67	517.82	1504.8
		Reused/Recycled	1549.8	1585.18	1618.21	1003.2
		Incinerated/energy from waste	0	0	0	0
Financial Indicators (£k)	Total disposal cost (Minimum Requirement) Waste revenue Receipt 08-09 £39,724 Waste revenue Receipt 09-10 £38,694 Waste revenue Receipt 10-11 £53,115		168,327	N/A	N/A	

Commentary

Cross Government targets to recycle 40% of waste arisings continue to be exceeded with DVLA recycling approximately 75% of its overall waste.

Waste management has been fully transferred into the DVLA PFI agreement.

Each of DVLAs Local Offices run their own initiatives for local recycling as a part of their ISO14001 accreditation.

Finite Resource Consumption – Energy			2008-09	2009-10	2010-11
Non-Financial Indicators (t)	Energy Consumption (KWh)	Electricity: Non-Green	6,659,168	4,263,932	**5,927,347**
		Electricity: Green	13,545,393	13,579,245	**16,385,913**
		Good Quality CHP(purchased)	–	–	**421,285**
		Gas	33,135,894	29,903,990	**27,715,449**
		LPG	0	0	**0**
		Oil	3,442,614	3,856,559	**120,142.1**
Financial Indicators (£k)	Total Energy Expenditure		£3,342,137	£3,985,523	£2,223,140

	Commentary
	DVLA self generated approximately 40% of its electrical energy on its HQ on-site CHP system. Oil use has reduced as we previously used oil as a back up for our boilers, we have very few occasions this year where we have needed to utilise the back up system.

Finite Resource Consumption – Water			2008-09	2009-10	2010-11	Target 2010-11
Non-Financial Indicators	Water Consumption (M^3)	Supplied	**60,070**	**54,967**	**56,432**	**48,402**
		Harvested	**336**	629.41	1592.63	
Financial Indicators (£k)	Water & Sewerage Costs		**£152,082**	**£123,438**	**£138,237**	
		Commentary				
		The significant increase in rainwater harvested during 2010-11 is due in full to the increase in rainfall.				

Greenhouse Gas Emissions		2008-09	2009-10	2010-11	Target 2010-11
Non-Financial Indicators	Gross emissions from buildings	**17,019**	**17,236**	**Being analysed by Cabinet Office**	**15,500**
(tCO2e)	Gross emissions attributable to official business travel – road miles only [3]	**840**	**579.45**	**419**	**681**
Financial Indicators (£k)	CRC Gross Expenditure (2011-12 onwards)				
	Expenditure on accredited offsets (e.g. GCOF) [4]	**£0.00**	**£0.00**	**0**	**£0.00**
	Expenditure on official business travel (road miles only)	**£955,498**	**£659,375**	**£758,517** [5]	**N/A**
	Commentary				
	The emissions from official business travel (road miles only) figure has reduced again during 2010-11. We believe that this is down to centralising the management of travel including pool cars and hiring of vehicles into one area for the whole business.				

3 Includes all official business road travel including ANPR vehicles.

4 DVLA does not currently carry out any carbon offsetting.

5 Due to a change in accounting procedures, the 2010-11 business travel expenditure also includes fuel costs for ANPR vehicles, which we are unable to split out. Therefore, the actual figure will be lower than quoted here.

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