Driver and Vehicle Licensing Agency

# DVLA Annual Report & Accounts 2009-10

An executive agency of the Department for Transport

**Driver and Vehicle Licensing Agency**
**Annual Report and Accounts 2009-10**

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## Foreword

This last year has seen DVLA responding to the challenge posed by the financial recession and the £25.1m deficit from 2008-09 due to the sudden and dramatic fall in income. The Agency Business Plan for 2009-10, agreed by our sponsors and former Ministers in the Department for Transport (DfT), forecast a deficit of £29.7m. However, I resolved that the Agency should make every effort to break-even by accelerating sustainable cost savings. The Management Commentary in this report shows not only how we achieved a £32.7m efficiency gain in 2009-10 but, as a result of £32m above forecast income caused by the vehicle scrappage scheme from May 2009, achieved a surplus of £35.1m for the year. This is a fantastic outcome for us through the collective effort of my management team and the whole Agency recognising our responsibility as a Trading Fund.

But the real achievement was to deliver this financial result alongside improved operational results:

- reducing vehicle excise duty (commonly called road tax) evasion by a third to 0.6%, now at its lowest level
- meeting all 8 DfT Customer Promises underpinned by our long-standing 18 customer service standards
- handling an increased transaction volume with on average 248 fewer staff engaged on DVLA operations than during the previous year
- continuing the journey from paper to electronic transactions with our customers and
- delivering 80% of a previously planned operational development and systems up-date programme for the year.

We face further challenges in 2010-11 as the new Government takes action to address the fiscal deficit facing the UK. As a result of the significant strides taken over the past two years and a programme to deliver a further shift to electronic transaction channels, the Agency continues its focus to be an efficient front-line service.

Agency staff reacted very positively to the demands placed on them:

- improving productivity 7% over the year by absorbing growing transaction volumes
- sharing the load as some staff who left the Agency were not replaced and
- staying healthy and reducing the number of days lost through sick absence.

Colleagues understood our direction as an organisation and have shown that they are capable of rising to every challenge.

We made progress over this last year in a number of areas, one of these, to remove duplication of effort with other Agencies, with more joint operations, sharing of facilities and joint procurement with others in the DfT family and more widely. These opportunities complement our internal focus on channel shift and maximising the advantage and efficiency of e-transactions.

The pressure continues, indeed increases, on the whole of the public sector to achieve more output from less input. Our Business Plan 2010-11 sets out a continuing programme building on the success and capability honed over recent years, not least 2009-10 as reported here.

N. C. Shanahan

Noel Shanahan
Accounting Officer
24 June 2010

# Highlights for the Year

## Operational Results

We met or exceeded all our Secretary of State Targets (see page 9).

**Success on a plate**

The DVLA Sale of Personalised Registrations and Cherished Transfer scheme was 20 years old in 2009. During that time, we have raised **£1,470m** for HM Treasury, selling over **3m** registration numbers. Our telesales and online sales generate an average of **£4.5m** per month. Over the last year, DVLA delivered **£108.1m** to the C*onsolidated Fund* through this activity. This has been the most successful wider-market initiative across Government.

A first – between 10 February and 3 March 2010, DVLA launched its first online Personalised Registration Auction raising £587,090 against a revenue target of £500,000.

## Financial Results

We turned around the forecast in our Business Plan of a **£29.7m** deficit and achieved a **£35.1m surplus**.

We delivered an efficiency gain of £32.7m, exceeding our target of £25m for the year.

## Vehicle Excise Duty (VED) Collection

The Agency collected over **£5,742m** in VED (commonly referred to as 'road tax') making £201m of refunds for subsequently surrendered tax discs - and **£41.7m** in fines and penalties related to VED evasion. This was all delivered to the Consolidated Fund.

**VED evasion is now the lowest it has ever been –** this was a third down on the levels seen in 2008-09, with a current annual estimated loss to HM Treasury of £34m in Great Britain from the 0.6% evasion rate observed in the annual Department for Transport (DfT) led roadside survey.

## Customer Service

We met or exceeded all 8 DfT Customer Promises (see page 11).

## Move to more efficient e-services

Electronic Vehicle Licensing take-up increased to 51% by March 2010 (up from 40% in 2009).

Driver Licensing Online take-up increased to 39% by March 2010 (up from 23% in 2009).

# Awards and Accreditation

**We have done it again!** - following an annual review in November 2009, DVLA were re-accredited with the Customer Service Excellence (CSE) standard awarded by the Cabinet Office for the **fifth** time. The Government's CSE standard was developed to ensure that public services are not only efficient and effective but also excellent, equitable and empowering, with the citizen at the heart of public service provision.

**Making the grade** - another success for DVLA's Contact Centre staff when they achieved re-certification to the Customer Contact Association (CCA) Global Standard for Customer Service. The Standard was awarded for continued excellent performance, customer focus, employee learning and development, compliance with legislation and technology.

**Making a difference** - DVLA received the **Carbon Trust Standard** for real action taken on climate change. The Carbon Trust Standard recognises which organisations have genuinely acted on climate change and are committed to ongoing emission reductions. The Agency is at the forefront when it comes to tackling climate change and has taken action to reduce the carbon emissions we are directly responsible for rather than just paying others to offset our emissions.

**Setting the Green Standard -** in 2009-10 we were awarded the Environmental Management System (EMS) ISO14001 accreditation in a further six of our local offices. This brings the total offices with EMS to 19.

**DVLA's European Success -** The Agency was once again successful in winning the Bigmouthmedia Best Marketing Award 2009, this time for our campaign to maximise road tax collection.

**Fighting Fraud** - DVLA Criminal Intelligence Officers have been honoured with a police commendation for their assistance in tackling identity fraud. Because of their investigations a number of applicants were charged with fraud, deception and possessing false documents. This award is for recognition of our continued work to fight fraud.

**Positive about Disability** - DVLA is celebrating another success with the re-accreditation of the TWO TICKS 'Positive about Disabled People' symbol. This award recognises our actions to support disabled people in the workplace.

**Thai Visit**
Delegates from the Thailand Government attended DVLA's Personalised Registration auction in December 2009. The visit was part of a fact-finding trip to learn from the Agency's business model of selling personalised registrations. The Agency is seen as the benchmark for various countries around the world, with the likes of the French, Canadian and American Governments making regular contact to discover exactly how we operate.

# 01. Directors' Report

## Who we are

DVLA is a Trading Fund, sponsored by the Motor and Freight Services Group (MFSG) of the Department for Transport (DfT)

The DfT goal is to deliver '***transport that works for everyone***' and its objective is to oversee a reliable, safe and secure transport system by setting strategy and policy whilst managing relationships with the agencies that deliver front line services. The diagram on page 8 shows our relationship and contribution to achieving shared strategic goals to deliver registration, testing and assessment of vehicles, drivers and operators.

## What we do

Our purpose is to - ***establish and maintain an accurate record of all those who are entitled to drive various types of vehicles, together with a register of all vehicles entitled to travel on public roads.*** These registers allow us, with the co-operation of our delivery partners, to ensure that only entitled drivers and vehicles are on the road. The Agency collects Vehicle Excise Duty (VED), for the Government and sells personalised registrations.

DVLA has a growing influence on **Road Safety** and plays a major role in **Crime Prevention** and **Reduction**. We contribute significantly to **Sustainable Development** through the reduction of carbon emissions, reducing our energy use, waste, and choices of service channels for our customers but also support moves to reduce vehicle emissions through our vehicle register and tax collection.

We are leading the way in Government in providing **Electronic Services** to our customers. Over the last ten years we have come through a massive period of change, we are now a dynamic organisation that is continuing to evolve rapidly to meet the growing expectations of our customers and stakeholders.

### *Our vision is:*

**To be a modern, highly efficient organisation, which provides 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 accessible and as flexible as possible to those who have the rights to use them.**

These registers underpin action:

- by the Police to ensure that the law is respected and observed in order to keep road users safe;
- to allow us to collect VED effectively; and
- to deliver other Government initiatives such as traffic management and reducing carbon emissions.

## Our Strategic Objectives

We have seven Strategic Objectives agreed with DfT:

1. Ensure that the completeness, accuracy and accessibility of our records satisfies customers and stakeholders in a way that maximises value for money.

2. Ensure customers receive a level of service and choice of channels that meets their expectations and encourages them to comply with their legal obligations.

3. Become more productive by taking advantage of technological advances and improved processes to drive out waste and delay.

4. Achieve the VED compliance levels target and generate 'Personalised Registration' income to meet the target contribution to the public purse.

5. Ensure that legislation and processes work efficiently and effectively when enforced to obtain compliance and to establish entitlements.

6. Work with other organisations across Government to share resources and capabilities, in order to reduce the overall burden on the public purse and the environment.

7. Develop the flexibility and capabilities of our people and organisation so that it makes the Agency more productive and quicker in responding to the changing needs of stakeholders.

Further information is available on **[www.dvla.gov.uk/publications](www.dvla.gov.uk/publications)**

## Governance

**DVLA's Chief Executive -** appointed directly by HM Treasury as the Accounting Officer for the DVLA Trading Fund. The Chief Executive is accountable to the Secretary of State for Transport for ensuring we meet our obligations and deliver our targets and services.

**The Executive Board** - the Agency has five Executive Board (EB) members who support the Chief Executive in managing the business.

**Non-Executive Members** - we have two non-executive directors with private sector experience who comprise the Audit Committee along with a co-opted senior representative of the DfT. Since October 2009, the non-executive directors attend all Executive Board meetings.

The agreed EB terms of reference are to:

- Ensure compliance with the legislative and governance framework.
- Agree budgets for each new financial year, and make decisions on Agency-wide policies in relation to budgets, ensuring we maximise value for money from procurement and use of resources.
- Review and manage key issues and risks, performance against Secretary of State Targets, key operational and financial measures.
- Communicate the Agency's Strategic Agenda and ensure that future programmes of work are in line with that agenda.
- Review our strategy direction and progress with transformation, including identifying cross-agency impacts of changes proposed.
- Approve future programmes and delegate funding on an annual basis.
- Endorse business cases in advance of consideration by DfT where this is required under our agreed procedures and approve business cases that fall within the Agency delegation.
- Ensure that HR, Finance, IT and Communications provide effective support for the delivery of the Agency's core services.

The EB are supported by the:

- **Operational Delivery Board and Operational Management Board** who are accountable to the Chief Operating Officer for the day-to-day operational performance of the Agency.

- **The Programmes Delivery Board**, accountable to the Chief Information Officer for the day-to-day delivery of the Agency transformation agenda.

- **The Finance Committee** who are responsible for managing urgent budget and funding requests, accountable to the Director of Finance and Strategy.

**Our Risk Management Approach**

The DVLA 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 Secretary of State Targets. Risk Management helps protect DVLA's reputation as a highly effective and efficient provider of services to customers and stakeholders.

## How DVLA fits within Government Funding and Functions

**Parliament**

↓

**HM Treasury**

↓

**Department For Transport**

↓

**Department for Transport objectives**

1. Better Transport Safety and Security
2. Tackling Fraud and serious crime
3. Working across government to save money and improve customer experience
4. Collecting road tax
5. Underpinning action to increase sustainability

↓

**Motoring and Freight Services Group**

↓

GOVERNMENT CAR AND DESPATCH AGENCY | DSA DRIVING STANDARDS AGENCY SAFE DRIVING FOR LIFE | VCA VEHICLE CERTIFICATION AGENCY | VOSA Vehicle & Operator Services Agency | DVLA Driver and Vehicle Licensing Agency

↓

**DVLA**

**Responsibilities include:**

Maintaining records of licensed drivers and registered vehicles

Issuing licences to drivers and the maintenance of vehicle driving entitlements

Maintaining records of driver endorsements, disqualifications and medical conditions

Issuing registration documents to vehicle keepers

Collecting and enforcing Vehicle Excise Duty (VED)

Working in partnership with the police and intelligence authorities in dealing with vehicle related crime

Registering and issuing Tachograph cards

Issuing vehicle registration marks

Selling attractive vehicle registration marks

**Sustainable Development**

Applying the Five key principles of the UK Strategy

↓

**Cross Government Working**

Passport Service ↔ DVLA Driver and Vehicle Licensing Agency ↔ Home Office UK Border Agency

DWP Department for Work and Pensions | POST OFFICE | Transport for London | METROPOLITAN POLICE | HER MAJESTY'S COURTS SERVICE hmcs | Home Office

## How we did against our Secretary of State Targets 2009-10

| | Target 2009-10 | 2009-10 | 2008-09 | Longer Term |
|---|---|---|---|---|
| | **Better compliance to support improved road safety** | | | |
| 1 | **Accuracy (traceability)**<br>a) Maintain accuracy of the **vehicle register** so that a registered keeper can be traced from the record in 95% of cases.<br>b) Improve the accuracy of the **driver register** by developing robust methodology and processes by December 2009. | **Exceeded 97.1%**<br><br>**Achieved 87.3% (against previous year of 79.6%)** | Exceeded 95.7%<br><br>n/a | a) Introduce additional measures of accuracy.<br><br>b) Agree target measures to meet stakeholder business needs and monitor them. |
| | **Transforming customer service** | | | |
| 2 | **Customer Satisfaction for Service Delivery:**<br>Deliver the 8 DfT Customer Promises (including customer satisfaction measures surveyed for private motorists and commercial partners) | **Achieved (Met or exceeded all 8 DfT Customer Promises)** | Achieved 18 out of 18 Customer Service Targets | Maintain or improve satisfaction levels. |
| | **Improved efficiency and capability** | | | |
| 3 | **Finance**<br>Deliver financial performance agreed with DfT with financial deficit not to exceed £30m.<br>**Value for Money**<br>Achieve repeatable financial savings of £25m. | **Exceeded £35.1m surplus**<br><br>**Exceeded £32.7m** | Not set as target<br><br>Achieved £19.5m | Return to balanced outturn and deliver statutory duty.<br><br>Achieve a total £80.7m value for money gain between 2008 and 2011. |
| | **Contributing to wider government objectives** | | | |
| 4 | **Collecting Tax for the Government**<br>Collect over £5 billion of VED (net of refunds) and through enforcement action collect £30m. | **Exceeded £5,742m**<br><br>**Through enforcement action collected over £45.5m** | Achieved £5,543m<br><br>£52m through enforcement | Through targeted enforcement action gather at least £100m that otherwise would not have been volunteered between 2008 and 2011. |

# How we did against our Operational Targets

## Accuracy

***Strategic Objective 1 - Ensure that the completeness, accuracy and accessibility of our records satisfies customers and stakeholders in a way that maximises value for money.***

Our key purpose is to maintain complete and up to date registers of drivers and vehicles and make them easily accessible to those who have the right to use them.

In 2009-10, the Agency exceeded its Accuracy targets:

- to trace the registered vehicle keeper from the record – **97.1%** against a target of 95%
- to improve the accuracy of the driver record by developing robust methodology; and processes by December 2009 – **87.3%** against the previous year of 79.6%.

Throughout the year, the Agency has been driving and ensuring accuracy features in all decision-making and activities within the business. The Agency has developed a single Accuracy Plan, which identifies accuracy issues and opportunities to improve accuracy of the driver and vehicle records, this ensures focus and identifies threats and opportunities from new projects and business activities.

We have been focusing on encouraging customers to comply with their legal obligations so that their records are accurate and up to date.

**Customer feedback**
We carried out market research with customers to assess their views on the existing change of address processes. Results confirmed the value of several existing initiatives to improve address accuracy. Further analysis of customer feedback is ongoing with the aim of identifying additional accuracy improvements.

**The cost of an inaccurate record**
DVLA has commissioned DfT's In House Analytical Consultancy (IHAC) to put a financial value to an inaccurate Driver/Vehicle record. This work is ongoing and we will use the results to inform the value of delivered from resources used to increase accuracy.

**Pilot studies**
*Local Offices* - a number of DVLA local offices have been checking customer details against our database during routine transactions with minimal impact on both queuing and counter times. Where inaccuracies were identified, customers have been prompted to change their details. This pilot provides an increased opportunity to check the drivers' record, as most customers who attend a Local Office have come to do a vehicle transaction. The record is checked later to ensure the customer has complied.

*Home movers* - we have been working with private sector address matching companies to remind customers who have recently moved house that they need to update DVLA with the new address details.

*Paper Licence Holders* - we have carried out work prompting paper licence holders who have not contacted DVLA for over ten years to notify us of changes. Our data analysis suggests that remaining paper licence holders are far more likely to have inaccurate records.

*Cross-Referencing Driver and Vehicle Records* – during the year, we continued to investigate options for a single notification of change of address that will update both a Driver and Vehicle record. We will continue to pursue this in 2010-11 in potential collaboration with cross Government initiatives such as 'Tell us Once'

## Customer Service and Satisfaction

***Strategic Objective 2 - Ensure customers receive a level of service and choice of channels that meets their expectations and encourages them to comply with their legal obligations.***

**Satisfaction guaranteed**
The 2009-10 customer survey showed that **93%** of our private motorists were satisfied with our service with commercial customers coming in at **96%** (a great improvement on the previous year when 84.7% of commercial customers were satisfied).

We met or exceeded all 8 DfT Customer Promises listed below. These promises are underpinned by 18 customer service targets for us to be able to track quantitatively how we are performing against them. We achieved or exceeded all service targets agreed with DfT in terms of assurance of meeting these promises.

**DfT Customer Promises**

1. We will provide a full response to enquiries quickly.
2. We will provide a full response to complaints quickly.
3. We will respond to telephone calls promptly and endeavour to resolve all enquiries at the first call.
4. We will use reliable and accurate methods to measure customer satisfaction on a regular basis.
5. We will 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. We will ensure that our staff are polite and friendly to customers at all times and understand our customer needs.
7. We will 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. We will 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.

**Governments Service Transformation Targets**

During 2009-10 we:

- reduced avoidable customer contact by 65.6%, exceeding the target of 50%
- migrated all of our e-services to Directgov/Businesslink.

**Channel Shift and improvements to our Electronic Services**
DVLA's electronic services are leading the way in Government, providing 24/7 access to our customers and major savings in our costs. In 2009-10, **Electronic Vehicle Licensing** (EVL) take-up increased to **51%**, (up from 40% in 2009), representing use by 22 million customers and 90% of electronic payments into Central Government.

In addition, as a result of a successful marketing campaign including direct marketing, online and radio campaigns, our **Driver Licensing Online** take-up increased by **39%** (up from 23% in 2009).

During the year, the Agency developed system improvements to make it easier for customers to use our electronic services, assisted by customer usability testing and feedback.

In 2009-10, we completed a proof of concept exercise to provide a new service for drivers with a medical restricted licence was completed. This service will enable drivers to apply for their Medical Driving Licence Renewals online.

**A give away**
We continued with our incentive scheme to entice customers to use our EVL service (both online and over the telephone). Customers are given the option to enter a prize draw to win a new car and the exercise has won a number of marketing awards. In 2009-10, we gave away 36 SEAT Ibiza ECOMOTIVE cars to lucky customers, with the vehicles donated by the manufacturer after a competitive engagement with all manufacturers.

**Making it easier for our customers**
In June 2009, we introduced a new service through which customers can change the address on their driving licence over the telephone. One of the main objectives of this change was to answer an increased number of customer enquiries at the initial point of contact, eliminating a postal application to decrease costs, improving customer service and capturing more changes to data.

Before a customer can apply for a change of address by telephone, they must answer a number of security questions. This is to ensure that the advisor handling the call is speaking with the licence holder and the customer has both the photocard and counterpart of the Driving Licence. This improves privacy and security. During 2009-10, the Contact Centre processed over 25,000 customers' change of address. The response from customers has been positive, with numerous thank you letters received. We are continuing to take forward the necessary legislative and process changes to offer registered vehicle keepers the same facility.

*Understanding the customer journey* - the Agency is continuing to look at the 'Customer Journey'. What is it really like for our customers? During the year we have been looking at a cross-section of our customers to see how we can improve our processes to provide a more efficient and effective service and reinforce the shift away from paper to electronic transactions.

*Commercial customers* - we have been working closely with our commercial customers to look at ways to improve the services we provide. Extensive work has been carried out to extend the scope of the fleet system and to include more fleet companies and more types of vehicles in the scheme.

*Improvements to customer forms* - with over 100 different DVLA transactions available, it is important that we continue to make it easier for our customers to comply with the law. This reduces customer enquiries, improves compliance and reduces our casework costs. With the help of our customers, we are continuously making improvements to our paper and online application forms and leaflets to make them easier to understand and complete.

*Keeping track of your mail* - we have been working with Royal Mail to pilot an innovative new mail tracking service called RED TAG. This traces individual items through Royal Mail systems, identifying where problems occur.

An initial trial between October 2008 and March 2009 gave the Agency some valuable data on the customer experience. A further trial is due to begin in July 2010, which should help the Agency and Royal Mail improve customer service and assist the drive to improve accuracy rates for our mailings.

**Sold on success**

DVLA Personalised Registrations' first online auction went live on 10 February 2010. The online auction included 1,000 registrations, with reserve prices starting from £130. Unlike our traditional auctions, our customers were able to request the registration numbers sold online. The sale raised £587,090 in revenue for the Treasury. Positive feedback from customers suggests the online auction was a resounding success and it is our intention to continue making personalised registrations available through this route.

**A modern approach to face-to-face customer service**

As part of our improvements to face-to-face customer service, a new customer management process has been introduced in six of our local offices. In addition, all offices now have now have replacement queue management systems installed. Feedback from customers shows an overall improvement in customer service and a reduction in queuing times.

# Improved Efficiency & Capability

***Strategic Objective 3 - Become more productive by taking advantage of technological advances and improved processes to drive out waste and delay.***

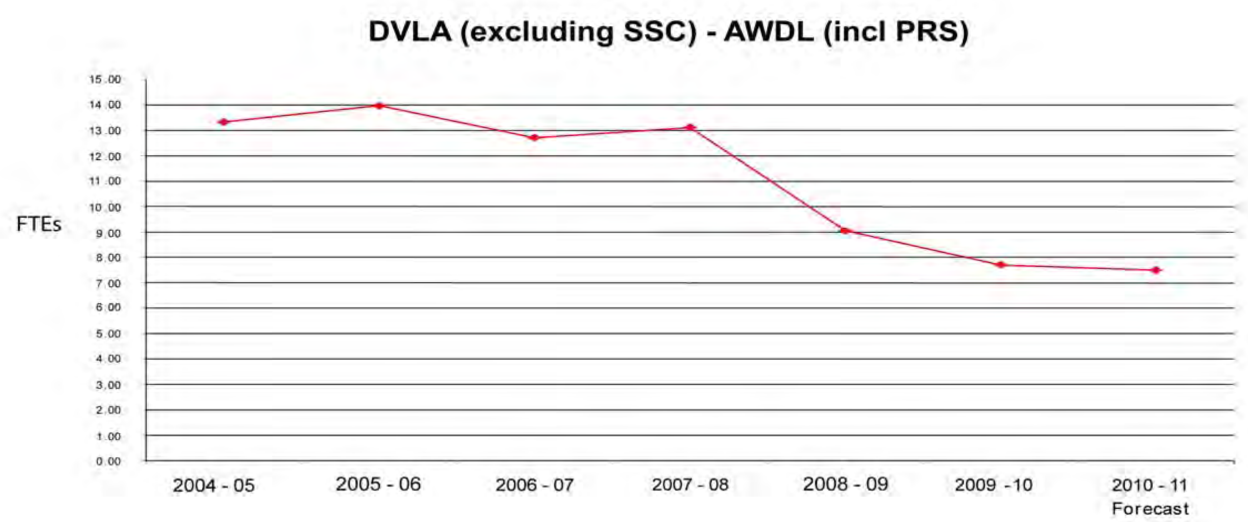
### Efficiency gains

During 2009-10 DVLA made efficiency gains of £32.7m, significantly exceeding its £25m target for the year from a range of initiatives as follows:

| Initiative | Delivery Plan 2009-10 | Outturn 2009-10 |
|---|---|---|
| | **£m** | **£m** |
| Productivity | 16.6 | 24.4 |
| Service Transformation | 4.7 | 5.1 |
| Re-focussed Compliance | 2.0 | 2.0 |
| Estates Framework | 1.7 | 1.2 |
| **Total Efficiency Gains** | **25.0** | **32.7** |

### Sickness and Absence

Last year we continued to make improvement in our sickness and absence record, building on the significant achievement of the previous two years. This is contributing to our productivity gain.




### Changes to our operations
In January 2010, the Agency made a significant change to its Central Operations structure and set up a Central Capture Unit (CCU) and Central Casework Group (CCG). This formation will allow the Agency to modernise the management of work across its operations, which will lead to a multi-skilled and flexible workforce and provide a more effective and efficient service to our customers.

### Shared Services
During the year, the Agency has been working closely with DfT Shared Services to improve both the processing and support functions provided. The new Flexi and Time Management system is now rolling out across the Agency providing a more effective and efficient service and also significantly improved management information and resource planning capability.

# Compliance with the law

***Strategic Objective 4 - Achieve the VED compliance levels target and generate 'Personalised Registration' income to meet the target contribution to the public purse.***

**VED evasion is at an all time low**
The findings of the most recent DfT roadside survey of traffic at 256 sampling points across the UK, have confirmed that VED evasion has fallen to 0.6%. This is the lowest level of evasion on record and the lowest evasion rate of any type of individually based tax. It also means the loss of revenue to the Government has been cut to just £34m from £50m in Great Britain during 2008-09. This is good news for the taxpayer in the current economic climate.

**Identity Fraud**
In January 2009, to help DVLA identify fraudulent attempts to exchange an invalid driver licence, the EU Commission introduced a new requirement. A driving licence must not be exchanged for a UK licence if it is invalid or subject to disqualification/withdrawal of the right to drive in the country it is issued. To help Member States comply a European Driving Licence Network will be set up to exchange certain driving licence information electronically before such exchange licences can be issued. The European Commission has set up a working group to agree processes and specifications for implementation by January 2013.

**VED evasion in Northern Ireland**
Historically VED evasion has always been higher in Northern Ireland (NI) than in GB. During 2009-10, this decreased significantly to 0.8% from 2.3% in the previous year. The Agency continued to work with the Driver and Vehicle Agency (DVA) in NI on their enforcement campaign. To help with DVA enforcement, we have provided three Automated Number Plate Recognition vans detecting unlicensed use on the road and wheelclamping activity that mirrors the mainland operation.

**Insurance evaders**
In response to the increasing problem of uninsured driving, the Government commissioned a review of all areas relating to motor insurance, resulting in the '*Greenaway Report into Uninsured Driving*'. In response to the report, the Government commissioned DVLA to introduce a record-based compliance and enforcement regime – Continuous Insurance Enforcement (CIE).

During 2009-10, DVLA worked in partnership with the Motor Insurers Bureau (MIB), in preparation for implementation of the first stages of CIE, and DVLA has made good progress on the systems changes required. Insurance The MIB will start to issue Advisory letters to inform keepers that their vehicle appears to be uninsured in 2011.

**New service at the Post Office®**
The Agency has introduced a new electronic service at the Post Office® where drivers' photographs are captured together with a signature, data changes recorded and the whole transaction data sent to the Agency by a secure electronic link. The service will be available in 750 post office branches by November 2010 and result in a fully automated transaction for DVLA.

# Collection of VED

***Strategic Objective 5 - Ensure that legislation and processes work efficiently and effectively when enforced to obtain compliance and to establish entitlements.***

In 2009-10, we collected **£5,742m** in VED and through enforcement action collected over **£45m.** Evasion is now the lowest it has ever been (down by 0.6%) with an estimated loss to HM Treasury of only £34m.

**Enforcement activities 2009-10**

- With the help of our partners NSL Services and those local authorities who have devolved powers, we wheelclamped over **150,000** vehicles without tax.
- Reviewed our disposal procedures for seized vehicles - vehicles are auctioned/dismantled to raise revenue (worth approximately £1m per year). In addition, the Fire Service, Police and Educational establishments received over 100 vehicles last year for their training purposes and for covert surveillance.
- We continued to issue Late Licensing Penalty letters to those who do not renew their vehicle licence on time or declare Statutory Off Road Notification (SORN).
- Continuous Registration – we continued to enforce from the vehicle record.

See the Management Commentary pages 33-36 for further details and the Comptroller and Auditor General Section 2 page 108 for the independent audit review findings.

# Wider Government Objectives

***Strategic Objective 6 - Work with other organisations across Government to share resources and capabilities, in order to reduce the overall burden on the public purse and the environment.***

**Safeguarding Identity**
During the year, we worked closely with DfT in developing a departmental response to the Government *Safeguarding Identity* strategy. The web is increasingly becoming the service channel of choice for customers and this helps save significant costs for DVLA. We have been working with the Cabinet Office and Government Gateway to explore how the different organisations can work together to avoid the need for separate login facilities to simplify the experience for customer, who all too often have many passwords to remember, and ensure the access authentication checks are robust enough to safeguard personal privacy and identity security.

Combined with this strategy work, we have developed closer practical links with the Passport Service (PS), UK Border Agency (UKBA) and Department for Work and Pensions (DWP) to avoid duplicating the same checks and data collection from customers. This was carried out partly through the Joint Management Group chaired by the Cabinet Office. This not only saves the cost of duplication but also means that the organisations cannot be picked off one at a time by fraudsters.

**DVLA card production**
We have continued to make use of the secure card production facilities we commissioned in 2008, by providing the cards in respect of the Certificate of Professional Competence (CPC) for DSA and the Identity Card for Foreign Nationals (ICFN) for UKBA. These are produced at marginal costs for Government, with DSA and UKBA contributing to the fixed costs for DVLA helping contain fees for our registration activities.

Towards the end of the year, we initiated a procurement exercise to replace the existing contract for the supply of secure blank cards for DVLA. The Agency is the largest user of such cards in the UK, for the production of its driving licences. The new contract will allow other Central Government organisations to take advantage of the volumes that we procure to deliver cost savings for themselves.

## Information and Data Security

Keeping information secure continues to be a central government priority, with all departments and agencies keeping a clear focus on information and data security. Our primary concern is that we respect the level of trust placed in the Agency by the public and our delivery partners, especially when submitting personal, and often sensitive, information to our databases.

In 2009-10, DVLA continued to ensure that its data, information and systems meet business needs in a secure and compliant environment, which is sufficiently flexible to meet our business objectives. We continue to see an increasing number of covert attempts to breach our information systems security. The Agency works to the standards set out in the ‘Data Handling Procedures in Government Report’ which is published at **www.cabinetoffice.gov.uk** to provide the appropriate levels of information and security.

**Activities 2009-10**

- **Leadership, governance and training**: all staff in the Agency continued to receive specific, detailed training in information handling and security.

- **Information risk management**: potential internal threats were regularly assessed with business managers.

- **Through life information assurance**: independent reviews and updates of accreditation of our systems and on-going IT health checks were carried out to ensure they met Government security standards**Assured information sharing**: work continued across the business to ensure that due controls and governance frameworks were in place, and that all data partners and commercial organisations had clear operating codes and conditions.

- **Compliance with best practice and legislation**: including the Data Protection Act, the Public Records Act, Security Policy Framework compliance with Cabinet Office, Government Communications Head Quarters and the Ministry of Justice guidance.

The **DVLA Information Charter,** published at **www.dvla.gov.uk/publications** sets out in summary how the Agency's information is managed and the responsibilities of all staff and partners.

**Extension of requirement for Accredited Trade Association (ATA) membership**
As from 23 November 2009, ***all*** car-parking operators who wish to use DVLA data must be a member of the *Accredited Trade Association* and abide by their code of practice. The rule had previously only applied to those requesting information from the vehicle record electronically. This will improve safeguards around the release of information.

## Sustainable Development

At the beginning of 2009-10 we produced our latest Sustainable Development Action Plan (SDAP) focussing on changing the culture of the organisation by embedding sustainable development into our thinking and decision-making processes.

The Agency was successful in completing 65% of the SDAP actions. Of those not completed, some have been taken forward into 2010-11.

**European week for waste reduction –** to help the environment, DVLA took part in the European Week for Waste Reduction. A series of events were organised to get staff thinking about the waste they create and a local environmental organisation visited the Agency to raise awareness of support available locally. The 'More Green Project' is a Swansea based organisation who work with and for the community, providing household and office furniture along with other donated items for re-use. A number of staff donated unwanted household items to the local community.

DVLA waste has significantly reduced over the years. In 2005 the Agency produced 2,900 tonnes of waste and 71% of this was recycled. This has reduced each year to 1,700 tonnes in 2008, with 69% being recycled. Recycling has increased, with 1,600 tonnes of waste being recycled, resulting in 72% of the agency's waste recycled in 2009 -2010.

For performance against our Sustainable Development Targets (see Appendix).

# Managing and Transforming the Agency

## Staff Capability

***Strategic Objective 7 - Develop the flexibility and capabilities of our people and organisation so that it makes the Agency more productive and quicker in responding to the changing needs of stakeholders.***

**Time for a change**
The DfT 2010 Change Programme is reviewing how HR functions are provided across the DfT 'family', the aim is to centralise and standardise HR policies and processes. DVLA has been chosen to run the resourcing function for the whole of DfT and is leading some of the policy reviews.

**Lowering the cost of recruitment**
DVLA's in-sourced recruitment and assessment processes have saved the Agency £800,000. The process is far quicker and the assessment exercises are more pertinent to Agency needs. A more robust process for approving vacancy filling saved £444,000 as part of a wider workforce planning programme to manage headcount and costs.

**Class of 2009**
The 2009 Graduate scheme provided seven recruits who are now building their skills and experience through a range of placements over a two-year period. The scheme was designed and delivered internally, helping to keep costs as low as possible.

**Building our capability**
In line with the Government's Capability Review, the Agency continued to build on the development and leadership of its staff. Training courses on performance management were introduced including a National Vocational Qualification (NVQ) programme for administrative grades. We also delivered in-house education events and ongoing support to up-skill managers on HR policies and procedures which provided a saving of £18,000.

**DVLA's got talent**
In February 2010, a new **Talent Programme** was launched for junior managers with the potential to progress to a higher grade.

**Health & Safety at work**
The Agency continued to improve the health, safety and welfare of its staff including the improvement of the environment due to office and site refurbishment. On site accidents were reduced by 33% during 2009-10. During the year, we delivered health and safety training including stress management, health and safety management and risk assessments.

**Have your say**
In October 2009, the Agency staff took part in the first **Civil Service Survey.** We also carried out a **DVLA People Survey** in June 2009. As a result of this, a new communication and performance framework has been implemented and recommendations around roles and policies are under review.

**Engagement Champions** have been introduced to represent staff, and work closely with HR Business Partners to develop and implement changes.

An **Employee Representative Group** was set up, chaired by the Chief Executive, which provides staff with a direct opportunity to have influence internal work related issues that affect them.

**Happy at work healthy for life**
In September 2009, staff successfully completed the Agency challenge 'Around the world in 8 months' clocking up a combined 459,169 miles through walking, running and cycling during their lunchtimes or at home. Many achieved personal goals such as running the London marathon for the first time. This initiative was very successful at motivating staff to become more active. We believe this is contributing positively to our reduction in sickness and absence for the Agency, in which we have made significant strides over the last three years.

**Diversity**
A Report on the Agency's Diversity Action Plan 2009 –12 reflects the good progress we have made in delivering on the commitments of that plan see **www.dvla.gov.uk/publications**. We collaborated on a Diversity Conference in Swansea with the Welsh Assembly Government and continued to provide education and information for staff through mandatory diversity training.

## Financial Management

At the start of the year, our Business Plan forecast a £29.7m deficit. In view of this, we took immediate and further cost reduction steps to extend the reductions already achieved during 2008-09 when the recession hit our income badly. This is covered in the Management Commentary.

We continued with our robust and detailed monitoring of income and spend during the year, so that as the improvements became apparent, we were in a position to recommission and restart some of the projects that we had suspended at the start of the year. We prioritised these so that some of the time-critical infrastructure projects were restarted first (see page 25 of the Management Commentary). We were able to improve on the Income & Expenditure and DEL targets agreed with DfT, whilst still meeting over 80% of our planned investment programme.

During the year we exceeded our targets for prompt payment of suppliers, achieving 99.6% for 30 days (target 98%) and 94% for 10 days (target 90%).

## Contract & Programme Management

During the year, we completed the major refurbishment of the DVLA main site in Swansea, releasing further space for estate consolidation and delivering a better and more secure working environment for our registers and staff. At the same time, we avoided future costs through demolition of the vacated office space, which had significant electrical and asbestos problems.

Our performance in respect of the ICT Change Programme for 2009-10 as set out in last year's Business Plan is summarised on page 22. Elements of this were delayed as we adjusted our available investment to the forecast funds in the first six months of the year. DfT, however, provided interim support to keep some of the essential infrastructure changes on track. The support was specifically directed towards the Capital Payment Security Card compliance, Weblogic software update and preparation for CIE.

On the contractual side, we made significant strides during the year:

- The IBM contract for all our IT support services - we undertook a comprehensive and robust review of options for the existing contract, which had an exit date possible at September 2012, but an extension possible to 2015. After eight months of negotiations on implementation, quality, finance and integration of the negotiation results into the options appraisal, we extended the contract to 2015 at the end of November 2009. The new contractual terms apply from April 2010, which deliver immediate benefits for DVLA and a 14.8% reduction in baseline costs achieved from April 2010 onwards, amounting to an efficiency saving of around £128m for the remainder of the contract.

  This provides us with a secure foundation to complete our e-services development and better define our cross-Government strategy before entering procurement for the entire contract during 2012.

- Providing a photograph collection mechanism at Post Office® counters to replace the administrative 'Check and Send' service made available in the past. This will provide a face-to-face contact for the public, but is essentially an electronic transaction for DVLA, with improved quality and security of photographs supplied and reduced costs of internal processing.

- Initiating, during the last quarter of the year major procurements for blank cards, (e.g. driving licences) wheelclamping, driver medical checks, DVLA Personalised Registrations support and our credit card processing (merchant acquiring). These will be completed in 2010 and should deliver cost savings from current levels. Those for blank cards and credit card processing will support all organisations across Government.

## Performance against our ICT Change Programme 2009-10

| | MILESTONE DATE | PERFORMANCE 2009-10 |
|---|---|---|
| **STRATEGY & FEASIBILITY PROGRAMME** | | |
| Completion of full business case for Continuous Insurance Enforcement. | October 2009 | **Achieved** |
| Commencement of IT design and build for Continuous Insurance Enforcement. | February 2010 | **Achieved** |
| Commence work on a public consultation document to take forward legislation on the European Third Directive. | June 2009 | **Achieved** |
| Work to ensure that our systems are compliant with the Payment Card Industry Data Security Standards. | March 2010 | **Achieved** |
| Pilot of a new smart card utilising Chip & PIN technology to provide access to a new online Driver Entitlement Checking Service .(*) | March 2010<br>Revised to 2011 | **Ongoing – new date June 2011** |
| **DELIVERY PROGRAMME** | | |
| Budget Changes Phase 2. | April 2009 | **Achieved** |
| Ten Year Renewal - work on technical solutions for Post Office® scanning machines and electronic counter service. | March 2010 | **Achieved** |
| Improve electronic links with the Department of Work & Pensions (*) | October 2009<br>Revised to 2011 | **Ongoing – new date October 2010** |
| Replace the existing Customer Enquiries email system with a secure and resilient email response solution. | May 2009 | **Achieved** |
| **INFRASTRUCTURE PROGRAMME** | | |
| Technical Refresh – rolling programme ensuring that hardware, software and applications remain security compliant and within technical support. | March 2010 | **Achieved** |
| Local Office Upgrade – commence installation of Multi Protocol Label Switching lines replacing the existing frame relay network. | April 2009 | **Achieved** |
| Storage Migration – move off the current supplier (Legacy Storage Platform which will become out of support) to new Storage Hardware (*). | March 2010<br>Revised to 2011 | **Ongoing – new date December 2011** |
| **NORTHERN IRELAND UPGRADE PROGRAMME** | | |
| Procurement of new support and development contract for Northern Ireland (NI) vehicle systems based in DVA – transfer into new contract arrangements. | March 2010 | **Achieved** |
| Specification, detailed design and agreement of upgrades needed to NI vehicle systems for the interim period prior to transfer onto GB systems based in DVLA. | March 2010 | **Achieved**<br>Migration activities to be gradual |
| Analysis and identification of actions needed to deliver NI driver register capabilities for the future. Agreement of implementation approach and supporting policy option selection. Critical dependency on Department of Environment Northern Ireland (DoENI). | March 2010 | **Achieved**<br>It has been agreed that NI will evaluate a stand- alone solution. |

**(*) Delayed projects as part of cost containment at the start of 2009-10**

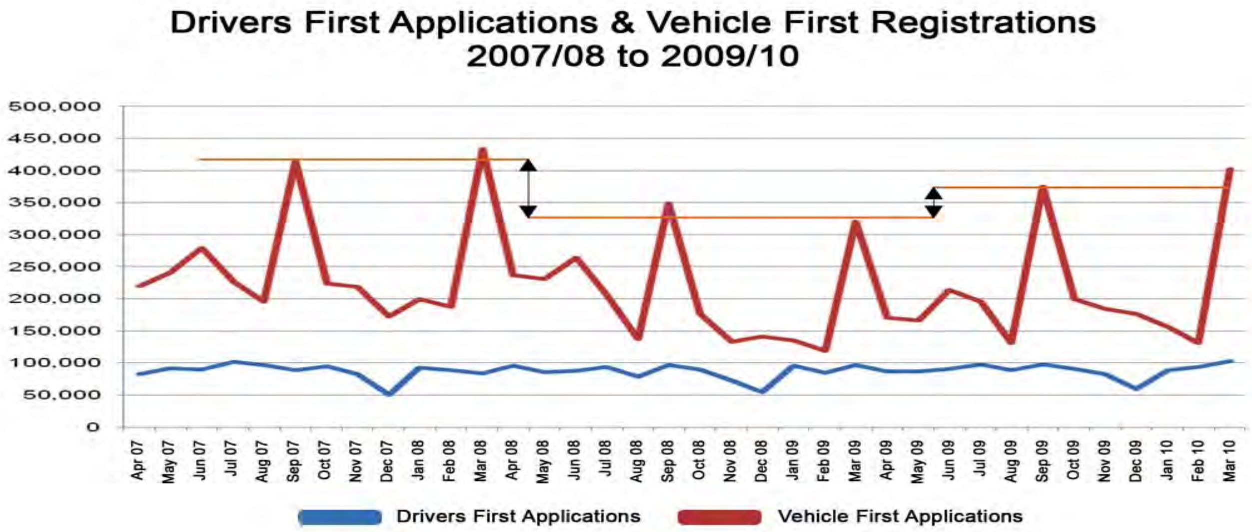
# 02. Management Commentary

## Business Analysis

**Impact of the recession and DVLA recovery from deficit**

In common with the rest of the country and indeed all developed economies, DVLA started the financial year responding to the worst recession in recent years. In August 2008, we had seen first vehicle registration volumes and income drop suddenly by 29% compared to the previous year. This downturn continued through autumn (39.4% down in November) and spring 2009 (36.9% down in February). Income from first vehicle registration transactions is significant for the Agency and the initial transaction is the largest automated transaction so marginal costs are small- which magnifies the net impact. The fee covers vehicle lifetime costs. The cumulative loss of anticipated fee income from this one transaction was £58m by the end of financial year 2008-09. By taking prompt and robust steps to mitigate this shortfall the Agency reported an overall £25.1m (restated for adoption of IFRS) deficit for 2008-09.

As we developed our forecasts for 2009-10, we surveyed the customer base and held discussions with the motor industry, corporate fleets and representative motoring organisations to assess demand and forecast new vehicle sales as accurately as we could. At the point of formalising our Business Plan forecasts in February 2009, we were deciding on which of three scenarios (30%, 37% or 45% reduction against 2007-08 volumes) to base our plans around. At that time it was far from clear as to whether the recession had bottomed, what sort of recovery would occur and at what pace this would manifest. Accordingly, we budgeted for the middle course in terms of vehicle registrations, but adopted a more optimistic outlook for driver transactions as we had seen volumes start to return late in the 2008 calendar year.  In the event actual volume transactions are shown in the diagram below.




On the cost side of our projections, we factored in reductions directly related to the key transaction volumes, together with the cost reductions achieved during 2008-09 and efficiency savings already planned through automation and various initiatives for 2009-10. This resulted in a Business Plan forecast of a £29.7m deficit, essentially the impact of a whole year of reduced transactions over a full year rather than the 8 months seen in the previous year, although significantly mitigated by the cost savings made and planned. As a Trading Fund DVLA is set up to react to fluctuations in demand and our short lines of decision-making and budgeting reallocation allow us to move swiftly whilst safeguarding customer facing operations. As we entered the financial year the management team were continuing to re-plan efficiency work, reprioritise projects and resolved to try to accelerate the shift from paper to online transactions. Our aim was to finish as close to financial break-even as possible for the year as a whole.

In May 2009, our financial prospects received an unexpected but welcome boost when the vehicle scrappage scheme was announced by HM Treasury, although we did not see major financial benefits in terms of additional income until mid-summer. Over the course of the financial year we estimate that the scrappage scheme gave rise to £32m first registration income for DVLA, a major contribution to our financial position. The other fee bearing vehicle and driver transactions recovered to deliver a net £5m additional income over the business plan forecast over the year, although the Driver Licence renewals and Tachograph income was around £9m less than predicted. For ten year renewal transactions, compliance and volumes do appear to be around the numbers predicted, but there is a lag in the profile as not all renew exactly on time - reducing the in-year figures as the profile builds to the expected stable level, reflecting the photocard introduction profile 10 years ago.

In the meantime we cancelled a number of small lower priority projects (saving £3.9m) and delayed the start of some larger ones (saving £10.1m) until the scale of the scrappage scheme impact became apparent in September. Our acceleration of channel shift was successful; drivers e-transactions increased to over 39% during the course of the year (up from 23% in 2009). Early savings were made on the IBM IT contract through extension negotiations, further efficiency and productivity gains were made from automation as well as cuts in running costs. These steps reduced our costs in total by some £29.5m, so that together with the movements in income against a business plan projected deficit of £29.7m we ended the financial year with a surplus of £35.1m. This represents a turnaround between forecast and actual result of nearly 8% of our turnover of £694.3m for the year.

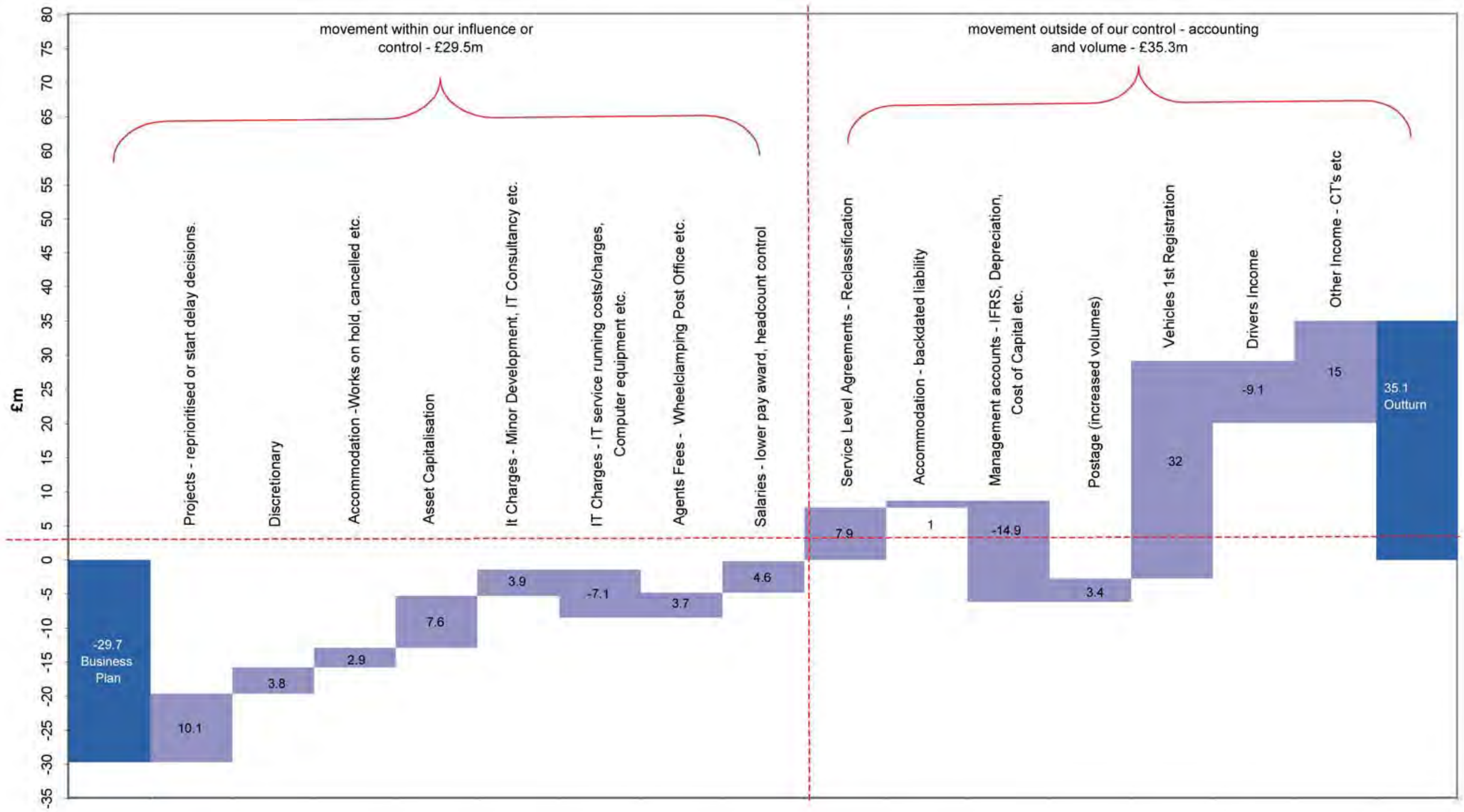
We regard this result as a major success for the close financial monitoring in place, rigorous cost reduction steps continuing from the previous year and the effort throughout the Agency to seek more cost effective ways of working and contracting with our suppliers. At the same time, we managed to keep the majority of our investment programme intact, so we can deliver greater efficiency and channel shift for the future. The foundations have been laid and we need to capitalise on the significant opportunities presented.

**What the future holds**

As noted earlier in this report, we continue to make progress with our headcount and absorb more transactions with fewer staff (a productivity rise of 7% in 2009-10). We have projects in place to increase the scope of our e-services, increase the contribution from our outsource partners (e.g. Post Office®) and have, during 2009-10, renegotiated major contracts to reduce costs (e.g. ICT costs). This puts us in a healthy position in terms of our costs.

The Driver transactions are predicted to be relatively stable, with ten year renewals continuing to increase to ‘plateau’ levels. Previous recessions have seen permanent reductions in road haulage numbers so that we do not anticipate increases in Tachograph take-up to the originally anticipated volumes. However, we do, to meet new European legislation, need to extend the number of vocational driver licence issues and have a major project to undertake to change our systems to meet these new requirements - and we do not currently charge a fee for these transactions, although the power to do so already exists. The Agency is currently considering its position on this issue. For first vehicle registrations, we have predicted a fall from last year volumes (buoyed as they were by the scrappage scheme). Our predictions for the DVLA bottom line for 2010-11 are a significant reduction from 2009-10. A small surplus of around £2m is predicted and achievable by continuing with our cost reduction and productivity programme in the face of fee-bearing transaction volumes still significantly below those of 2007-08. This will allow us to retain the same fee levels as we have had in place for the last two years without any inflation increases for the coming year.

## Movement from 2009-10 Business Plan to 2009-10 Outturn



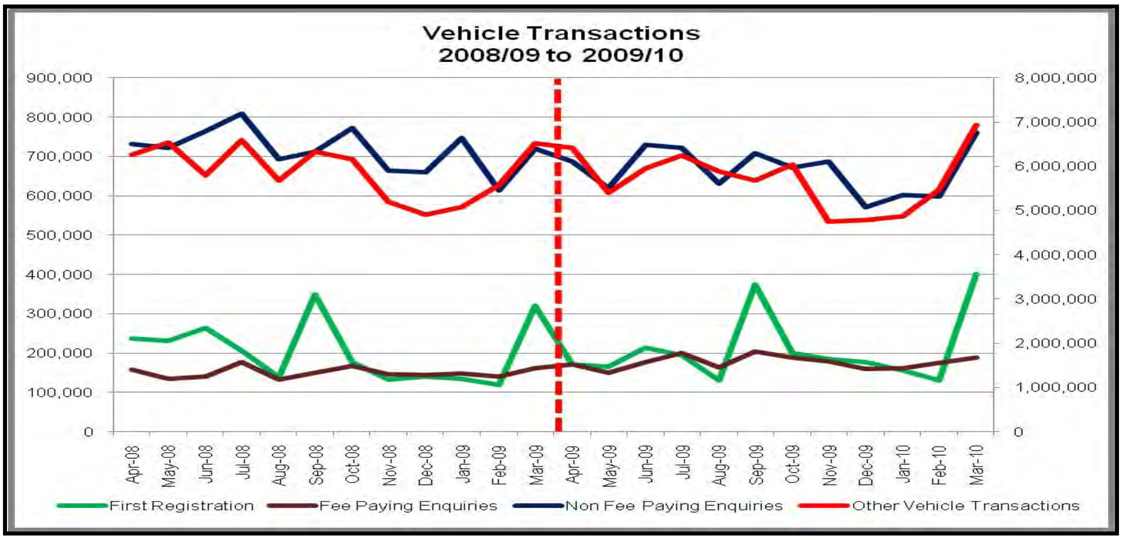
## Operational Activity

**Vehicle Transactions**

2009-10 saw a significant recovery against initial forecast (see page 23) in first vehicle registration volumes and fee income, critical for our overall income: 2.5m new vehicles registered. Our estimates reveal that around 20% of 2009-10 transactions were underpinned by the vehicle scrappage scheme and this undoubtedly boosted the purchase of new vehicles. At the same time, we noted a change in behaviour by corporate fleet owners who held on to vehicles longer than usual. This gives us some concern for 2010-11 as the scrappage scheme finished in March 2010. The turnover of vehicles in terms of keeper changes was 17.14m (2008-09 – 17.78m).

The nature and volume profiles of the different vehicle transactions present challenges for DVLA. The numbers of first vehicle registrations, other vehicle transactions; fee-bearing and non fee-bearing are shown graphically below. The primary fee-bearing transactions - first vehicle registrations and fee-earning enquiry transactions - represent a small proportion of overall transactions and vehicle register cost base. This means the income can be variable but our costs far less so, as first registrations are more volatile than the number of vehicle keeper changes.

There are reasons that mean the majority of transactions are not charged at the point of fulfilment but are covered from a vehicle perspective by the first registration fee and that the up-front fee covers the cost of administering that record over the life-time of the vehicle. Over 85% of subsequent vehicle transactions carry no fee at point of delivery - change of keeper, change of details (address, keeper name, vehicle specification etc), end of life actions. This is the most administratively cost-efficient arrangement (for DVLA and customers) and removes one potential disincentive to up-dating details. As can be seen from the graph the non fee-bearing transactions have been remarkably stable in number. These transactions remain paper-based whilst around 90% of first registrations are now electronic. The income/cost balance becomes unstable with fluctuations in first registration volumes in this scenario.




*Note: Left hand axis for First Registration & Fee Paying Enquires - Right hand axis for other transactions*

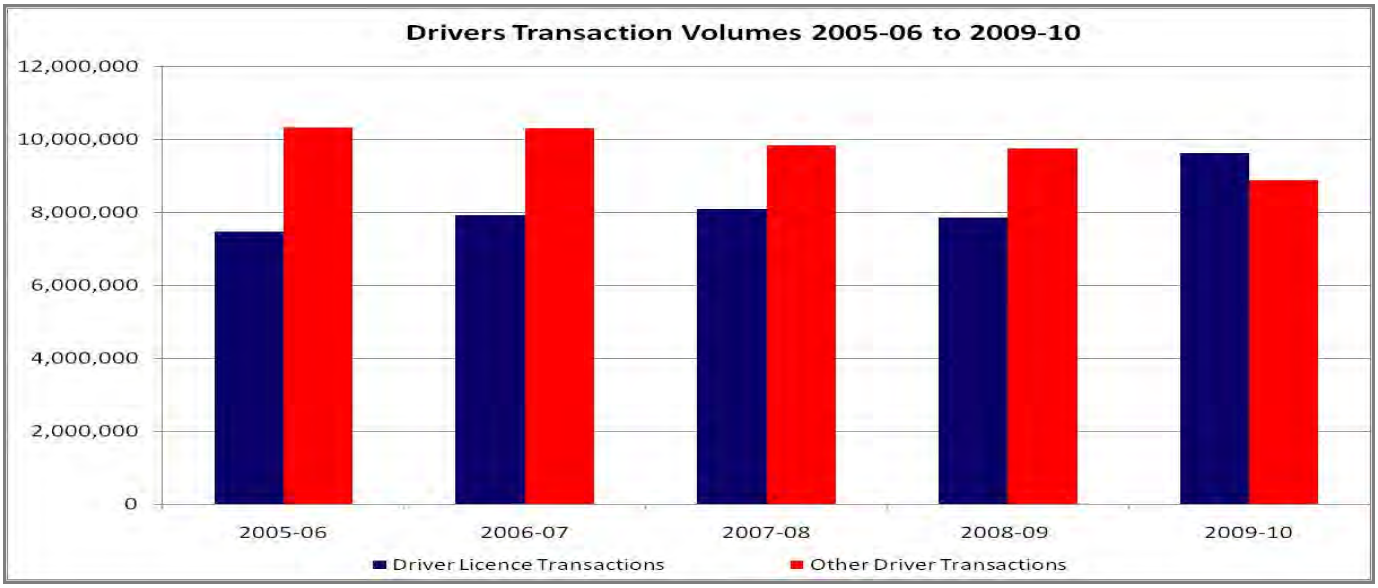
**DVLA Personalised Registrations and Cherished Transfers**

Sales of personalised registration and transfers of marks between vehicles continue to provide a significant transaction stream for the Agency and one that has been remarkably recession resistant, (seeing only minor fluctuations from 2007-08). This may be a reflection of disposable income for those not directly impacted by the recession. The total value of the 'Wider Markets' income collected through these transaction streams since first initiated has now risen to £1,470m. Over £108.1m was transferred to HM Treasury for use in the Consolidated Fund; the whole amount is surrendered after DVLA retention of related costs of sale and administration.

DVLA's personalised registrations has been the most successful scheme of its type across Government. It is an excellent example of delivering funds into the public sector through providing products or services to the public/private sector. DVLA actively manages the registration marks that enter the market to ensure sustainability.


**Driver Transactions**

Driver transactions have remained far more consistent throughout the recession than Vehicles, although these too showed a decrease that has now almost recovered. The graph below shows the number of driver licence issuing transactions (fee-bearing and non fee-bearing) and non-licence transactions (such as court notifications, drivers medical etc).




A number of observations can be made on the above:

- The core transactions - first application for driving licences, duplicate issue, enforcement actions, over-70s renewals - have remained relatively stable in terms of total volumes;

- We have seen an increase in notifications of name and address changes to driver and vehicle records, as our accuracy initiatives have taken hold, resulting in an increase in record accuracy from an estimated 79.6% to 87.3% by March 2010. These services are free of charge to encourage notification, so these volume increases do increase our costs - especially as we issue a new licence bearing the new correct details. However, this is in line with commercial practice (e.g. insurance companies, banks, retailers etc) and our key purpose encompasses the accuracy of our record, so the core transactions continue to support these maintenance transactions as part of the fee levied for the original transactions;
- The issuing of smart tachograph cards we undertake still runs significantly behind initial estimates of profile, reflecting much slower than anticipated use of the new tachograph equipment in new commercial vehicles;
- We have a more balanced ratio of fee-bearing to non fee-bearing transactions in Drivers, resulting in a less volatile income/cost position.

During the year, the ten year renewal transactions that commenced in June 2008, have steadily increased and represent most of the driver licence volume upturn seen in the graph above. The volume profile follows the same pattern as the initial issue of photocard licences in 2008. There is, however, a delay in renewal although the overall compliance rate is much as anticipated and most comply within three months.

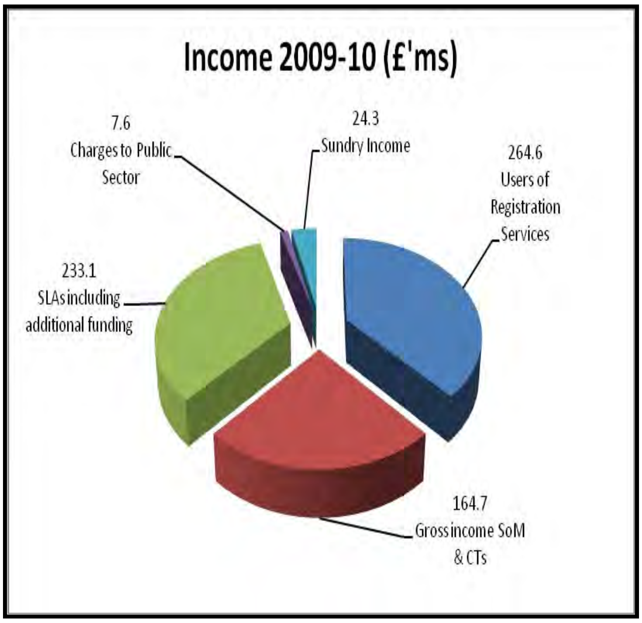
## Finances and Efficiency

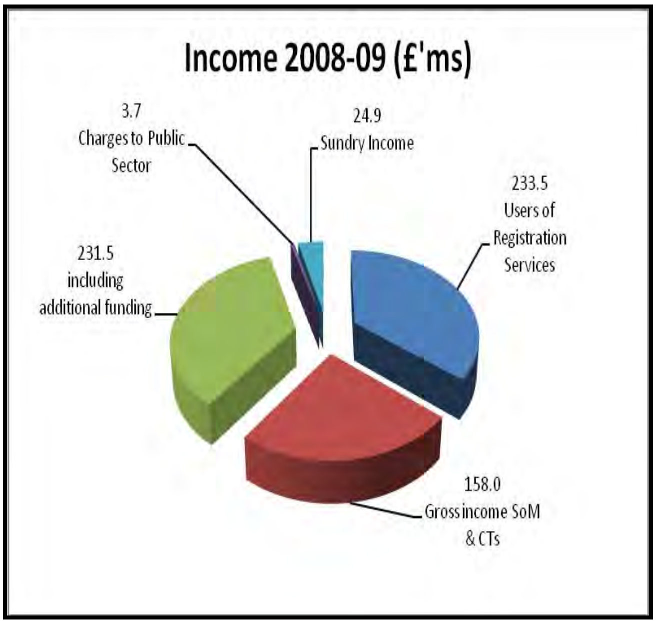
DVLA collected £5,742m of VED during the year, net of £201m refunds processed. This income is delivered to HM Treasury and is accounted for in the VED accounts on pages 99 to107. In addition, the Agency collected £41.7m of fine and penalty income through enforcement action and this is also delivered into the Consolidated Fund net of the cost of the commercial debt collectors employed. Together, these activities represented 52.5m transactions processed on behalf of HM Treasury. The costs of undertaking these activities is reflected in the Trading Fund accounts on pages 55 to 96, covered by the income derived through two related Service Level Agreements (SLAs) funded by DfT on behalf of HM Treasury.

### Income

The Trading Fund receives income from a number of sources:

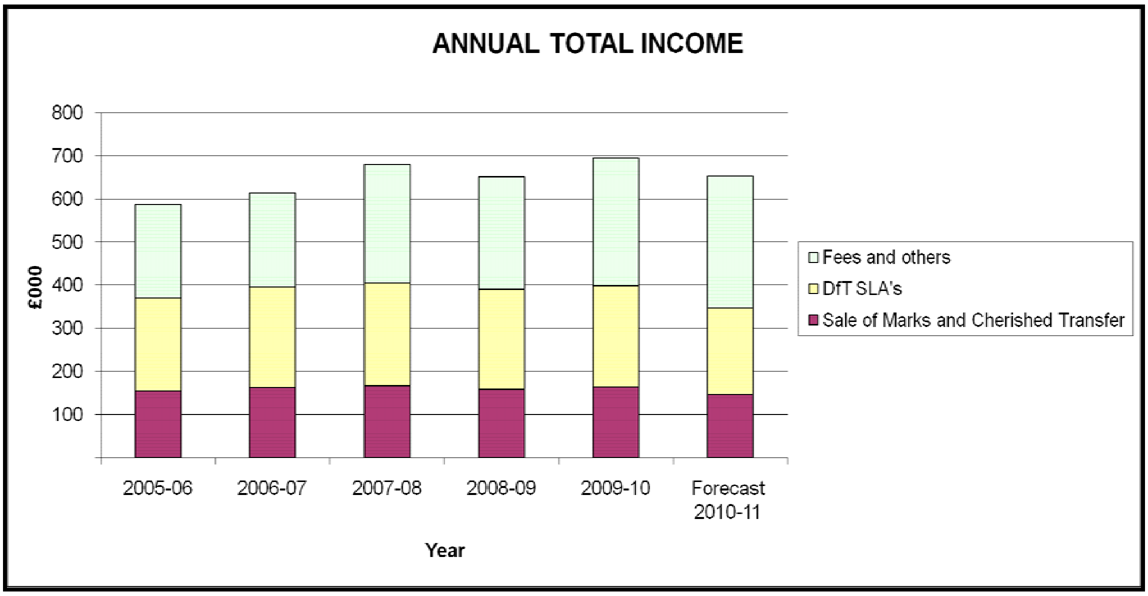
- users of our Register services – vehicle-keepers for registration and drivers for licensing;
- the gross income generated from DVLA personalised registrations and cherished transfer services, with the surplus subsequently passed to HM Treasury;
- two DfT SLAs – one each for VED collection and enforcement, 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;
- charges to other public sector organisations for use of our services and facilities;
- commercial income that not only fully covers the cost of the activity but also by paying a share of system upkeep and replacement costs, helps to limit those costs picked up by statutory fee payers.




The total gross income of £694.3m for the year was £42.7m above that for 2008-9 and £53.6m above the forecasts in our Business Plan.

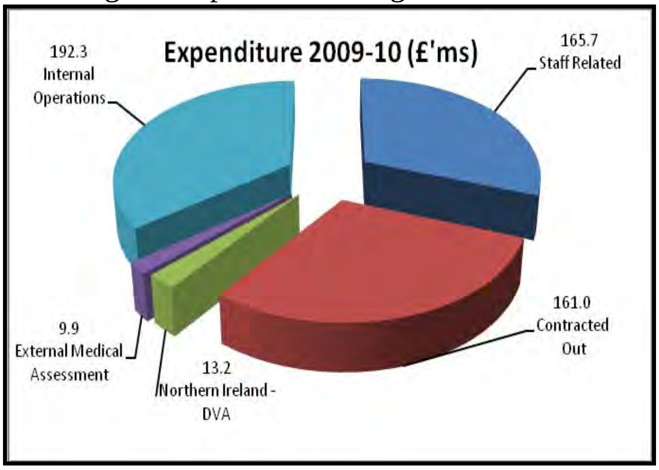
As noted in the initial paragraphs of this chapter, DVLA saw an unexpected increase above budget of £32m in first vehicle registration income attributable to the establishment of the scrappage scheme. The anticipated smart tachograph volumes have still not manifested so the income from these transactions remains disappointingly low and below forecasts. In overall terms, the long-term trend for income can be summarised in the following:

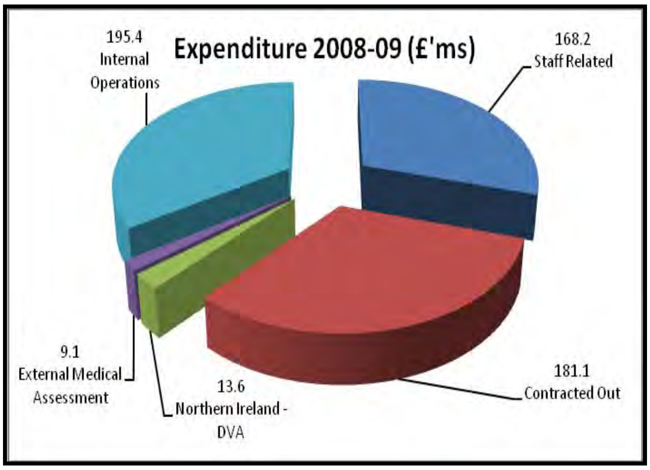



The above provides a summary only. In total, DVLA handles over 100 different transaction streams, with most of the transaction volumes further split through four channels - paper, face2face (the majority through intermediaries), phone and web. These are costed and measured separately, although we have retained a simple fee structure for customer convenience.

**Expenditure**

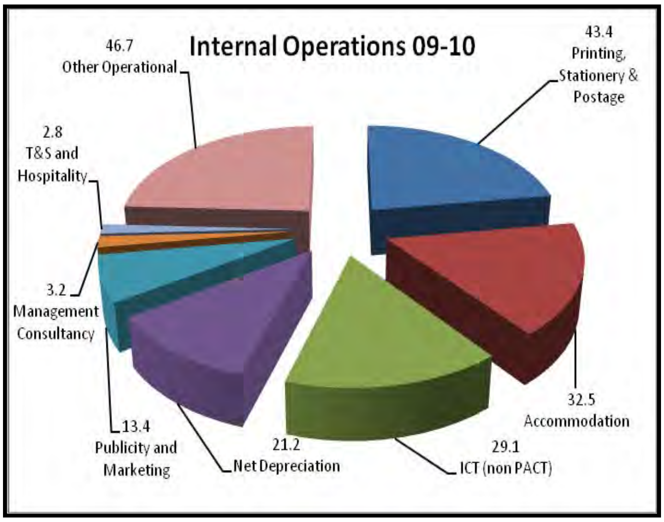
The total gross expenditure categories are summarised below:

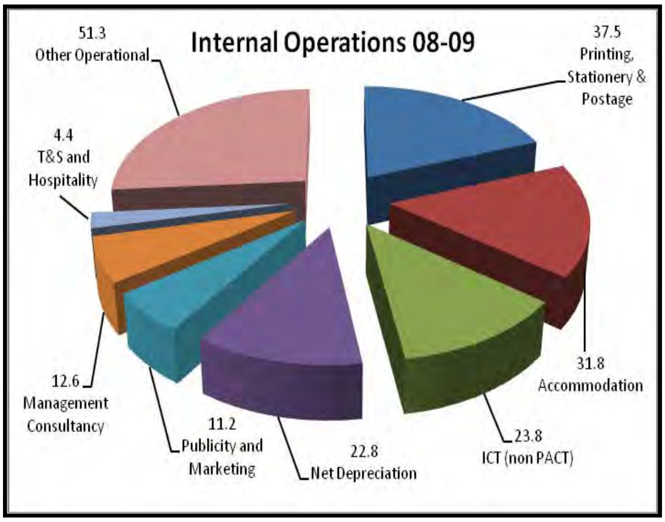



The gross expenditure has dropped in total to £542.1m from £567.4m between 2008-09 and 2009-10, a reduction of 4.5% in cash terms, but the lower costs for the last year also cater for increased transaction volumes and costs in a number of areas (specifically the ten year renewal of driving licences and the production of ICFN cards for UKBA). The proportion of the cost of work undertaken by others on our behalf has decreased to 34%, but this is mainly the result of channel shift (from Post Office to web) and contract renegotiations. The cash reduction of £2.5m in staff related costs reflects a genuine reduction of an average of 248 FTE's in headcount, but the £165.7m charge in 2009-10 also includes a £5.2m charge for voluntary early retirements as part of managing the reduction in staff numbers.

The Internal Operations total can be further categorised as follows:



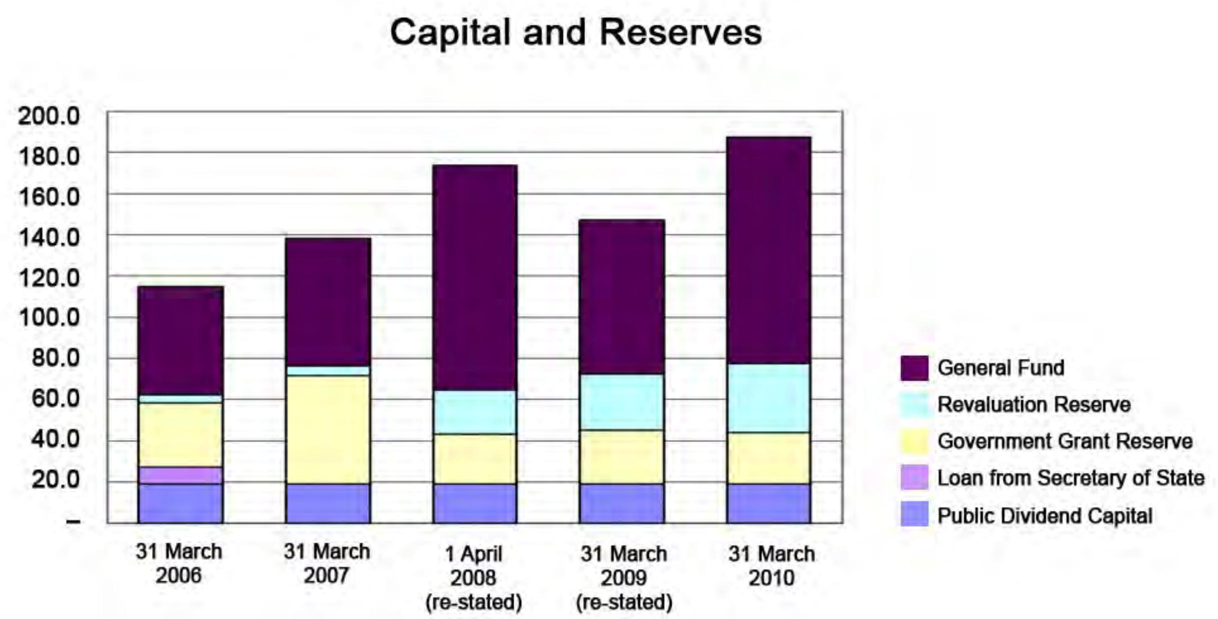




Printing, Stationery and Post shows the largest single increase, largely in terms of channel shift as we move onto web-fulfilment but have to complete the transactions by post and last year Royal Mail handled 128m outgoing items for DVLA. However these additional costs are outweighed by the much larger decreases seen in the contracted out services, as above. Similarly, for example, our costs for credit card handling (£10.6m) rose by 14% as our web transactions rose significantly.

**Agency Capital and Reserves**

The Agency is dependent on its ICT infrastructure to deliver its services and, as we introduce further e-services, this dependence continues to grow. We have a major programme of ICT updates to ensure that our software and hardware remain in support of business continuity and that we maintain the security standards to safeguard our data and connections to the Government networks. By far the majority of cash required to support the capital investment and maintenance programme comes from our fee income from services as a Trading Fund, so we have had to return in-year surpluses as our capital reinvestment has proceeded. Our future capital investment is funded from Retained Surplus. Our forecasts predicted that as we reached 2010-11 we would be stabilising in terms of ongoing depreciation balancing against capital expenditure and that our reserves position would likewise plateau.

The change to IFRS involved a technical accounting restatement upwards by some £27m of our Retained Surplus position as we now recognise the value of ICT assets that are reversionary to DVLA through the contract with IBM.



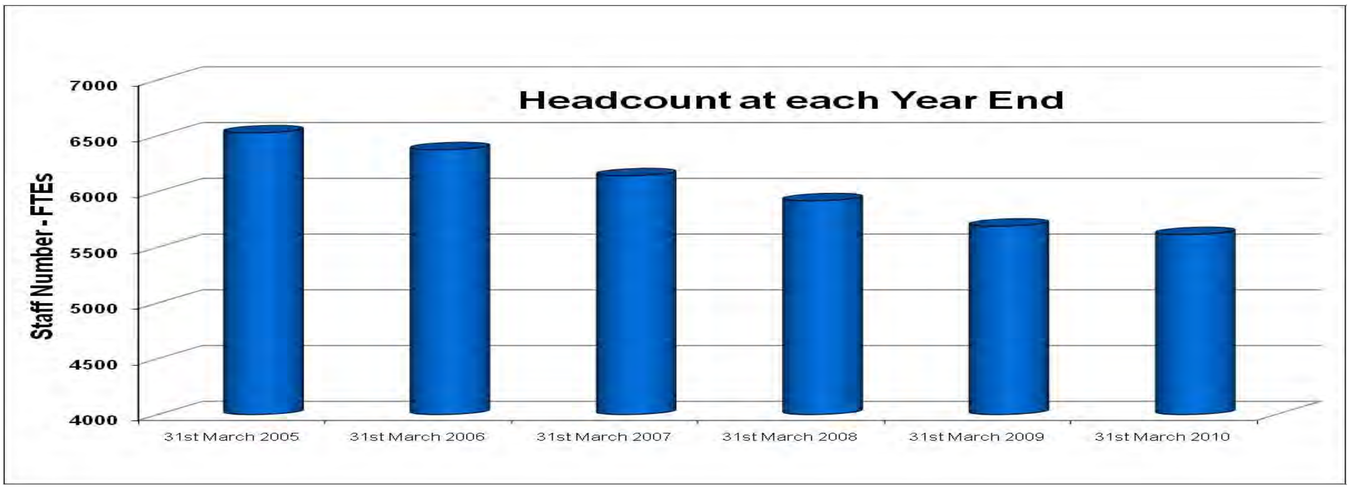

The Government Grant Reserve has stabilised as DfT/HMT continue investment through the VED SLAs for the tax collection/enforcement-related expenditure on our ICT systems, matched now with depreciation charges on the systems. The Revaluation Reserve reflects accounting adjustments on revaluations of the estate and new IFRS requirements.

**Asset Management Strategy**
The major assets for DVLA are its ICT systems, with our maintenance of capital approach noted above 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, based on Crown land. This houses the core business, refurbished over the last four years through a PFI contract with Trillium that covers also 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 (MOTO) agreements. There are no additional properties or surplus estates receipts envisaged, although DVLA anticipates reducing its leased accommodation costs in future. We continue to explore sharing arrangements with other Government agencies as our leases near expiry. Over the last two 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

**Workforce**
For the period 2004-08, DVLA was set a target of 500 net reduction in Full Time Equivalents (FTE's) headcount, which was achieved. This was a significant target as, during the period, new legislation and demand volumes meant that an addition 800 FTE equivalent of work was also absorbed whilst meeting the target. We have continued this trajectory and have managed the impact on staff through natural wastage and two schemes for voluntary early retirement during the period.

During 2009-10 we have also reduced our dependence on contract/agency staff from an average FTE number of 295 in 2008-09 to 210 in 2009-10, so the reductions in staff numbers are through genuine productivity gains and streamlining processes rather than substitution.



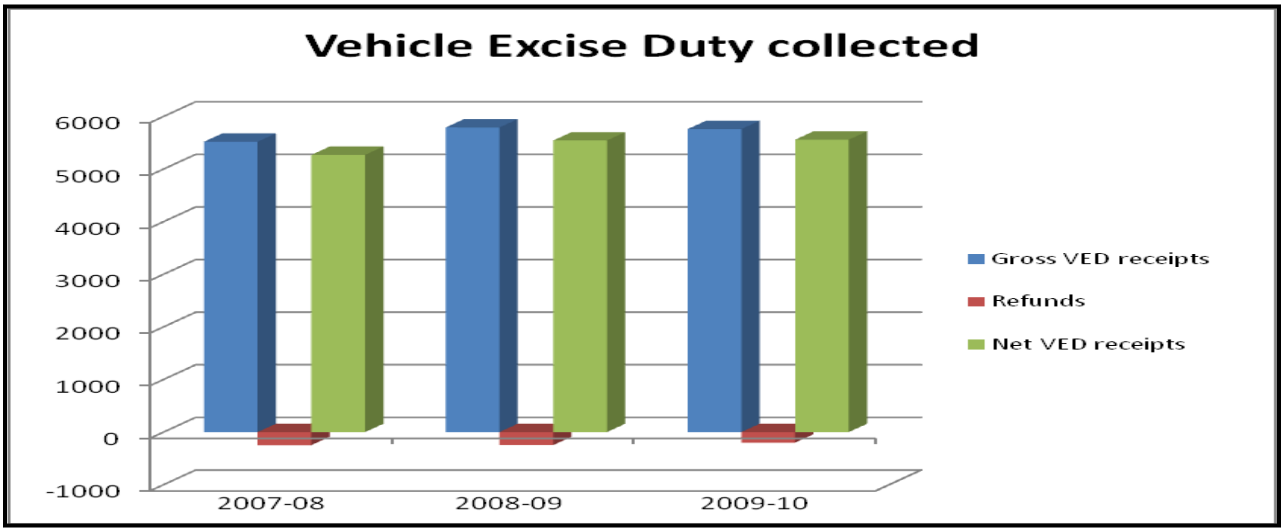

**Efficiency**
For the period 2004-08, DVLA achieved its £80m efficiency gain target. For the CSR 2007 period, it was set a further target of £80.7m, split between the three years at £19.5m, £25m and £36.2m. DVLA achieved its £19.5m target in 2008-09 with a 'green rating' from the National Audit Office (NAO) indicating robust evidence of measurement. Our robust approach to cost reduction during 2009-10 has set us in good shape and we have over-achieved on the target in delivering £32.7m.This puts us in a good position for the final year as we seek further channel shift, process changes and policy changes that will simplify our administration.

One key factor is that we continue to reduce our headcount whilst absorbing ever more transaction volumes, partly arising because of legislation changes. The average FTE staff numbers working on DVLA activities fell between 2008-09 and 2009-10 by a further 248 as disclosed in note 4 to the accounts. We monitor operational productivity closely and this increased by 7% between March 2009 and March 2010, a major achievement and a significant efficiency driver.

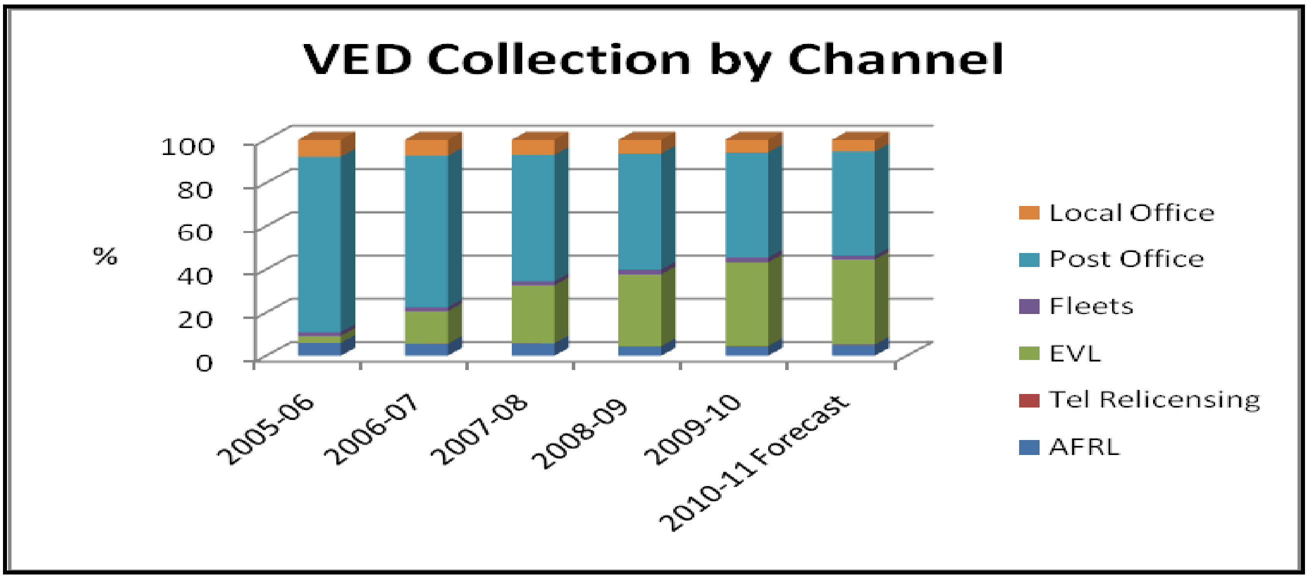
A key set of efficiency gains for DVLA is within the VED collection and enforcement areas. The impact of cost reductions through e-service introduction (EVL) have been amplified by rebalancing our enforcement activities, the use of incentives for debt collection and wheelclamping contractors, more targeted publicity and ICT contract reductions. This has enabled DVLA to reduce the costs of the VED SLAs that it has with DfT/HM Treasury by £15m (7.2%) from the originally budgeted levels for 2010-11. We have done this whilst improving the outcomes themselves, reducing evasion by another third during 2009-10.

## VED Collection and Enforcement

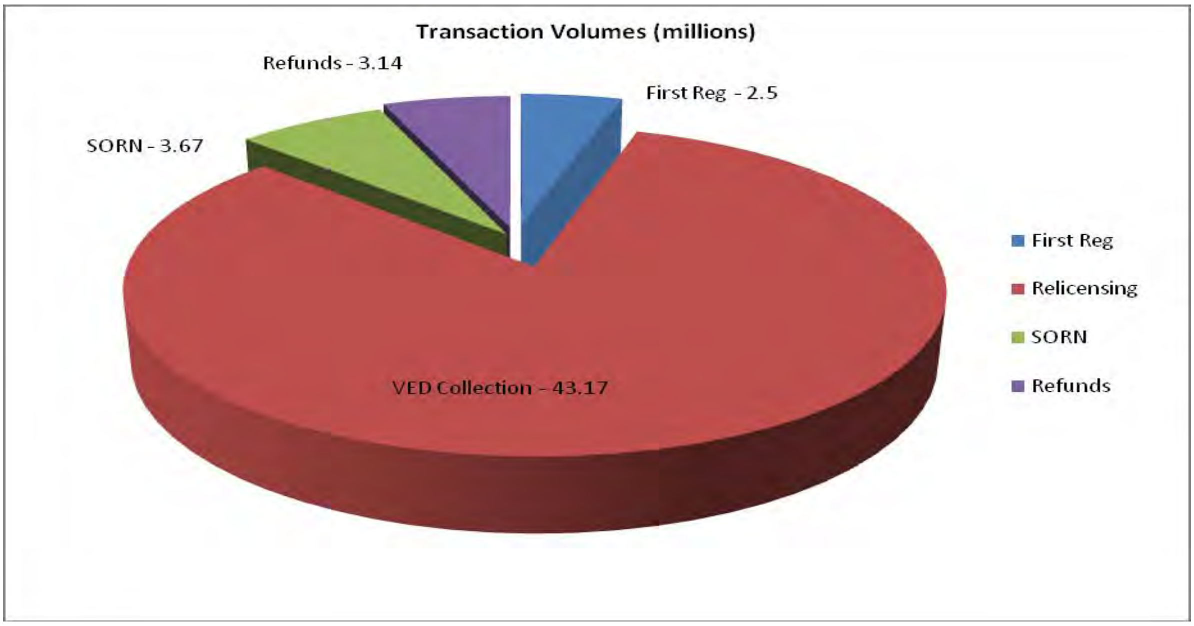
**Collection**
VED receipts in 2009-10 amounted to £5,742m.




In terms of transaction numbers, there continues to be a shift to use of EVL, which in the final month of the year was approaching 51% of eligible transactions. The Automated First Registration and Licensing (AFRL) transaction continues to be undertaken substantially (88% of all new licensing) through the e-channel.




The key transaction categories included in the VED SLA accumulate as follows to a total of 52.5m transactions.




*Costs of Collection*

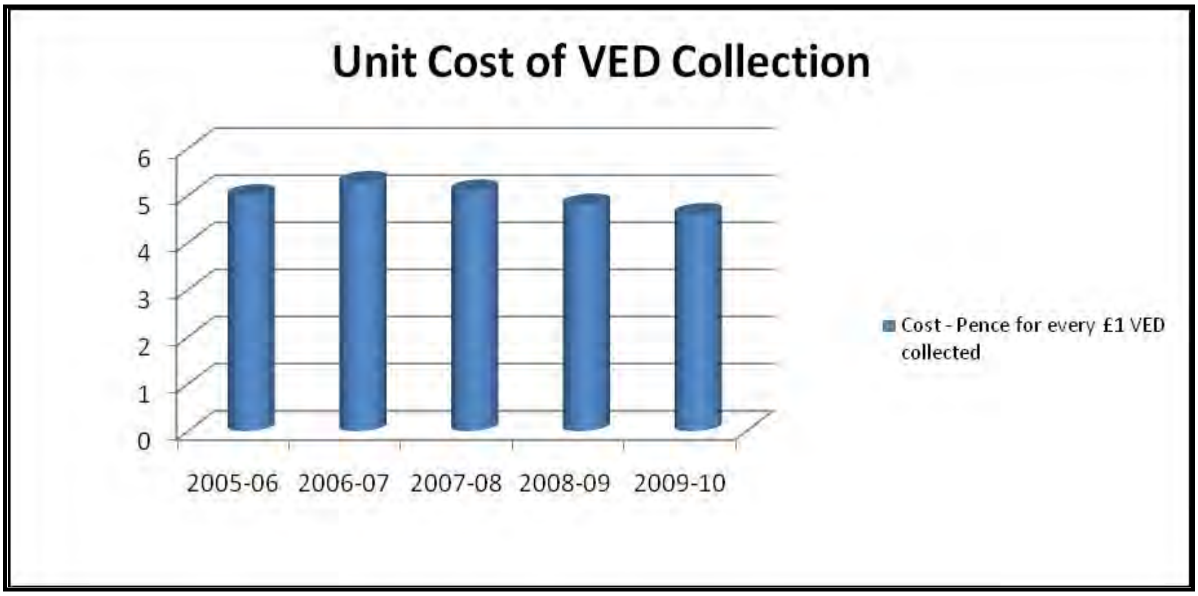
There are direct costs of collection for the 52.5m transactions. However, the Office of National Statistics have ruled that 50% of a specified range of registration costs should also be allocated to the tax collection activities because tax collection depends fundamentally on the registration and accuracy of the vehicle records held. HM Treasury regulations in respect of tax collection activities are that such costs cannot be borne by those who pay the tax and have to be underwritten by the Consolidated Fund itself.

HM Treasury (through the DfT SLA) have to fund the related costs – including very specifically the costs of changing the DVLA systems as a result of Budget changes to the VED legislation and associated tax rates.

The cost of VED collection in total was £129.9m against a budget of £131.1m. This comprised direct revenue expenditure of £123m, depreciation of £4.7m and capital contibution of £2.2m to the system changes required. The capital contributions were credited against the Government Grant Reserve in the accounts.

DVLA has delivered significant cost reductions through channel migration on the direct costs of VED collection, especially when the public sector measure of inflation 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 (SORN) and refund costs are also included, as are costs of issuing 'nil value' tax disks 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 on page 35.



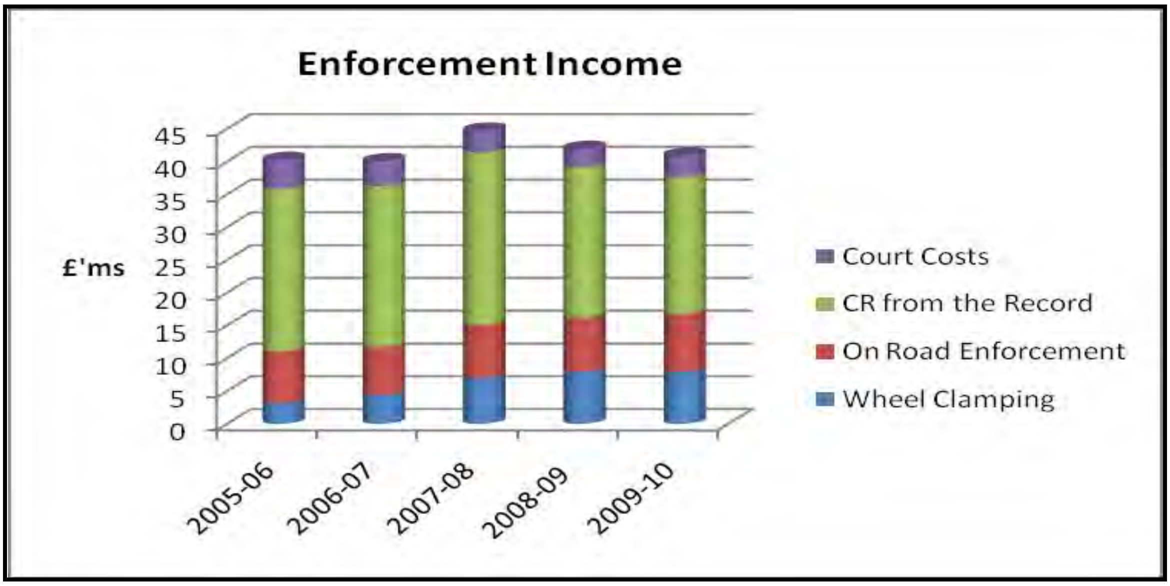

**Enforcement**

It is an unfortunate fact that not all Vehicle keepers are honest or compliant. Tax evasion remains a problem, even though we have moved to a Continuous Registration (CR) regime. However, between the introduction of CR, the move from County Court enforcement to debt collectors, more intelligence-led enforcement and a combination of Automated Number Plate Readers (ANPR) and wheel clamping we have succeeded in significantly reducing evasion rates from 1.5% in 2007 to 0. 6% achieved during 2009-10. This has meant a reduction in estimated loss (from £79m in 2007-08 and £49m in 2008-09) to £34m for 2009-10. As we are declaring a £47m collection of penalty, fine income and court costs during 2009-10, we have now reached a position where these now exceed the VED foregone through evasion.

DVLA monitors VED evasion on a monthly basis through two proxy measures – the accumulated statistics of its ANPR cameras and the number of exceptions produced through its scans of the vehicle register that reveal potentially unlicensed vehicles that have not declared SORN. These have developed increasing credibility over the last five years.

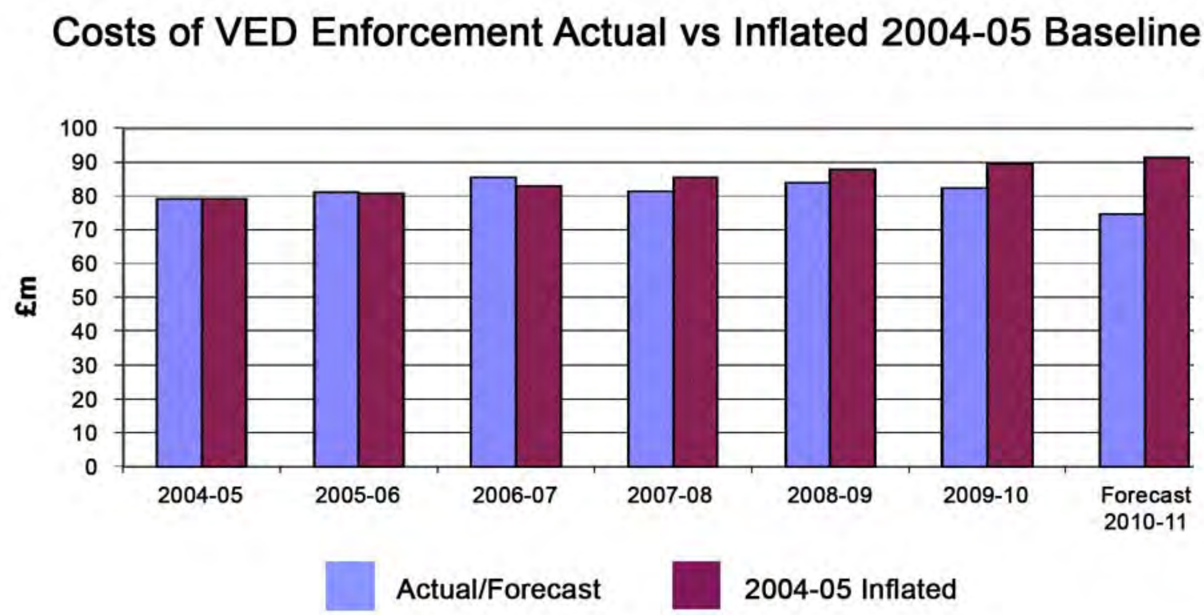
DfT statisticians undertake an independent survey each June to estimate VED evasion rates in traffic. Data is gathered across 256 sites across the UK, involving over **1.5m** vehicles. The sighting data is then compared with information on the DVLA registers to generate an estimate of VED foregone through evasion. Difficulties in 2006-07 in respect of handling of exceptions resulted in a recasting of the statistical model and a new series of annual results. The surveys are wholly independent of DVLA with the results evaluated by the Government Statistical Service and released under the authority of the Office of National Statistics (ONS).

The enforcement income can be summarised as follows:




Whilst the VED Collection SLA is largely demand driven, the activities on Enforcement are very much a decision for the VED Governance Board (see Statement of Internal Control for details) and depend on the leverage between spending on enforcement and the impact on compliance (and concept of induced relicensing) and the direct return from the activities in terms of fines and penalties. Over the last five years, the activities have been rebalanced to reduce costs and increase the impact of DVLA activities.

The costs of enforcement for 2009-10 were £82.4m as against the budget of £84.2m. Compared to the inflation adjusted costs in 2004-05 the actual costs each year are analysed as follows:




**Policy Determination**
During 2009-10, the VED Governance Board decided to discontinue the freestanding 'VED Hotline' which was the least cost-effective mechanism, although the public can continue to register individual complaints or notifications of unlicensed vehicles through the main DVLA contact centre and online. A continued shift towards external debt collectors was endorsed for unpaid penalties and contract terms were agreed to extend wheel clamping at extremely cost-effective rates in respect of its positive impact on compliance and VED collected.

**Response to NAO recommendations in previous years**

To address recommendations made by the NAO in previous years, the Agency has introduced further late reminder letters which are sent to vehicle keepers two weeks after the expiry of their tax, prior to enforcement action. Extensive testing in 2009 confirmed that the letters increase compliance and reduce the volume of cases needing to go forward for enforcement action. They also reduce short-term evasion by providing a timely prompt to those keepers who have failed to re-license their vehicle and leading them back into compliance. Following the success of the trials, this reminder has now been introduced as part of DVLA's routine interaction with customers.

The NAO also recommended that the annual DfT Roadside Survey methodology should be kept under review. DVLA continues to offer its full support to DfT colleagues to help in this and ensure the survey has continued effectiveness in estimating of VED evasion.

# 03. Remuneration Report

**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.

**Service contracts**
Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, 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.

**Salary and pension entitlements**
The remuneration and pension interests of the Chief Executive and Directors are set out on pages 40-41. The Senior Civil Servants annual pay award is determined by performance, with no award made to unsatisfactory performers. Bonuses are awarded to no more than 75% of staff. They are made to reward in-year performances in relation to agreed objectives, or short-term personal contribution to wider organisational objectives.

**Salary**
Salary includes gross salary; performance pay or bonuses; 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 is assessed annually for Directors through the appraisal processes stipulated 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 year. The standard period of notice to be given by Directors is three months.

**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 Retail Price Index. 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% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 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% and 12.5% (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% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

**Cash equivalent transfer values (CETV)**
Cash Equivalent Transfer Value 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 Non-Executive Board Members - Audited**

| | 2009-10 | 2008-09 |
|---|---|---|
| | £000 | £000 |
| Michael Brookes | 5-10 | - |
| Jim Knox | 10-15 | - |
| John Burdett | 20-25 | 10-15 |
| Baljit Dhillon | 5-10 | 5-10 |
| Liz Bertoya | - | 5-10 |

# Remuneration of the Executive Board Members - Audited

| | Salary including performance bonus (£000) | |
|---|---|---|
| | **2009-10** | **2008-09** |
| **Chief Executive** | | |
| Noel Shanahan | 115-120 | 110-115 |
| **Executive Board Members** | | |
| David Evans - Policy and External Communications (2008-09 April to July, 2009-10 from August 2009) | 50-55 (75-80 full year equivalent) | 15-20 (75-80 full year equivalent) |
| Paul Evans - Chief Information Officer (from March 2009) | 90-95 | 5-10 (65-70 full year equivalent) |
| Ieuan Griffiths - Finance & Strategy | 95-100 | 100-105 |
| Richard Kitchen - Policy & External Communications (to August 2009) | 35-40 (85-90 full year equivalent) | 75-80 |
| Judith Smith - HR & Estates (from June 2008) | 85-90 | 60-65 (75-80 full year equivalent) |
| Simon Tse - Chief Operating Officer | 95-100 | 80-85 |

| **Chief Executive Remuneration** | **£000** | **£000** |
|---|---|---|
| Noel Shanahan | | |
| Salary | 106 | 103 |
| Bonus Payments | 12 | 12 |
| Pension Contributions | 39 | 39 |
| | 157 | 154 |

Bonuses relate to those paid in 2009-10. The bonus to be paid in 2010-11 is yet to be determined. There were no benefits in kind.

| **Pension Benefits 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.** |
|---|---|---|---|---|---|---|
| | | **31/03/10** | **31/03/09** | **31/03/10** | | |
| | **£000** | **£000** | **£000 (re-stated)** | **£000** | **£000** | **£000** |
| Noel Shanahan | 0 - 2.5 | 5 - 10 | 106 | 142 | 3.7 | 26 |
| David Evans | 0 - 2.5 plus 2.5 – 3.0 lump sum | 20 – 25 plus 60 – 65 lump sum | 327 | 344 | 0.8 | 15 |
| Paul Evans | 0 - 2.5 | 0 - 2.5 | 2 | 29 | 3.3 | 24 |
| Ieuan Griffiths | 2.5 – 5.0 plus 0 – 2.5 lump sum | 35 – 40 plus 55 – 60 lump sum | 631 | 717 | 13.8 | 37 |
| Richard Kitchen | 0 - 2.5 plus 50 – 55 lump sum | 35 – 40 plus 165 – 170 lump sum | 862 | 906 | 0.4 | 29 |
| Judith Smith (i) | 32.5 – 35 | 30 - 35 | 14 | 28 | 290.5 | 12 |
| Simon Tse (i) | 2.5 - 5 | 15 - 20 | 148 | 180 | 24.9 | 24 |

The CETV figures at 31March 2009 are different from the closing figures reported in last year's accounts. This is due to CETV factors having been updated.

(i) Transfer in of pension benefits from another scheme during 2009-10.

**Statement as to disclosure of information to auditors**
In so far as the Accounting Office (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 that information.

N. C. Shanahan

**Noel Shanahan**
Accounting Officer
24 June 2010

# 04. Accounts for 2009-10

## Summary of Accounts

These are the first accounts produced under the new International Financial Reporting Standards (IFRS). DVLA's balance sheet as at 1 April 2008 has been restated as the starting point for incorporating the new standards, as interpreted by FReM. The cumulative effect of transition to IFRS reporting is an upwards adjustment of £29.9m to reserves at 31 March 2009.

As a result, the 2009-10 accounts include a number of additional disclosures in the notes to the accounts. The significant changes are as follows:

1. Note 2 – First time adoption of IFRS. This note is required by IFRS 1 – First Time Adoption, to illustrate the effect of IFRS on the UK GAAP Accounts;
2. Note 3 – Segmental Reporting. This note is required under IFRS 8 – Operating Segments, to disclose income, expenditure and net assets by those segments reported internally within DVLA to the Board of Directors;
3. Note 13 – Financial Instruments. IFRS 7 – Financial Instruments Disclosures requires more detailed disclosure around Financial Instruments including fair value analysis;
4. Note 14 – Provisions for Liabilities and Charges. An analysis of expected timing of discounted cash flows is included;
5. Note 15 – Commitments under Leases. Additional disclosures have been included for new finance leases; and
6. Note 16 – Commitments under PFI Statement of Financial Performance on-balance sheet contracts. More detailed disclosure has been required for capital liability, interest charge and service element.

In this year also, the running costs of the Shared Service Centre have been excluded following the change in governance arrangements during 2008-09. The assets were transferred to the DfT on 31 March 2009 and are now accounted for as part of the DfT Statement of Financial Position. The financial revenue results are fully disclosed within the DfT accounts. For ease of comparison, the 2008-09 operating costs comparative figures have been represented at Note 5 to disclose expenditure excluding the Shared Service running costs, which have been disclosed separately at £12.9m for 2008-09.

In 2009-10 the Agency announced a Flexible Early Retirement (FER) scheme. The total cost of the scheme was £5.2m and a Government Grant from DfT of £4m part funded this, with the balance provided by the DVLA.

As it is an intervening year in the five year cycle of valuations by appointed Chartered Surveyors, Land and Buildings have this year been index linked revalued. Following the introduction of IFRS, the Agency now also revalues its intangible assets. The Vehicle Excise Duty (VED) accounts have also been produced under IFRS but there were no significant changes.

Looking at the financial performance, the Agency produced a surplus of £35.1m for the year ending 31 March 2010. Total income from operations increased in year by £43m to £694m whilst total operating expenditure reduced by £25m to £542m in 2009-10. The changes from Business Plan forecast to outturn and between 2008-09 and 2009-10 have been discussed in the Management Commentary.

# 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 for Agency performance.

DVLA is sponsored through the Motoring and Freight Services Group (MFSG), a directorate of the Department for Transport (DfT). MFSG provides for co-ordinated strategies for the registration, testing and assessment of vehicles, drivers and operators across the United Kingdom. MFSG is headed by a Director General (DG), who has sponsorship responsibilities delegated from the DfT Permanent Secretary. The DG is supported in terms of agency sponsorship advice and management communication by the MFSG Board, upon which I sit together with four other Agency Chief Executives and MFSG representatives.

DVLA is responsible for providing driver licensing services in Great Britain and the registration of vehicles 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. These functions are discharged by DVA, acting through Service Level Agreements managed by DVLA.

HM Treasury is responsible for setting VED policy and category ratios of tax. DVLA is accountable for collecting VED, whilst enforcement policy is funded through the Single Enforcement Budget managed by MFSG in DfT. DVLA's performance and priority decisions are managed through the tripartite VED Governance Board (HM Treasury, DfT and DVLA) that meets quarterly and is chaired by DfT.

**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 an ongoing process designed to identify and prioritise the risks to the achievement of DVLA and DfT policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Agency for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance relating to corporate governance and management of risk.

**Risk Management Approach and Capacity to Handle Risk**

I have appointed the five Directors of the Agency functions 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 and the risks facing the Agency. The EB regularly considers the strategic direction and plans of the Agency, including oversight of the Agency's change agenda. This includes identification and consideration of the strategic risks faced by the Agency and the long-term structures and infrastructure changes needed to address them.

I am supported by two Non–Executive Directors who bring ideas and advice from their different experience to bear on Agency issues. The non-Executives changed between October and December 2009 when John Burdett and Baljit Dillon retired at the completion of their terms of office and were replaced by Michael Brooks and Jim Knox. They exert their influence through attendance at Audit Committee meetings and, since October, at all EB meetings. Lucy Chadwick retired as the additional DfT member of the Audit Committee also in November, to be replaced by Kate Mingay.

The MFSG DG helps ensure that sufficient priority is afforded to risks impacting the overall DfT and MFSG objectives through quarterly sponsorship meetings with myself, and my board members as appropriate, as a part of the regular review of Agency performance and progress with the change agenda.

The DVLA capacity to handle the delivery and technology risks at the core of its business is greatly enhanced by our strategic contract with IBM, supported by Fujitsu Services. This strategic contract is based on risk sharing principles although with a very clear customer/supplier legal framework and provides the Agency with a unique opportunity to use technology and innovation to deliver enhanced and expanded services to the public. During the course of the year, agreement was reached, after long and robust negotiations to a final three-year extension of this contract until September 2015. The contract changes negotiated as part of the extension will see very significant cost savings for DVLA.

The Agency framework setting out our approach and guidance to staff on risk management is available on the Intranet for staff comment, contribution and information. This includes a summary of the corporate and directorate risk registers. The risk management policies and processes are supported and maintained by Corporate Management Services. The Agency Corporate Risk Manager is responsible for advising on corporate risk management and the escalation of risks from the risk and control framework to the EB.

Processes are being refined to ensure that the bottom-up and top-down risk assessments integrate fully and make explicit the Agency's definition of its risk appetite, linking these to the appetite expressed by MFSG. 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 discuss high level corporate risks each month, concentrating on progress with the actions to avoid and mitigate the key risks. Over the last year these have included:

- economic downturn impact and loss of income from fee-earning transactions;
- security concerns in relation to our core Vehicle and Driver systems;
- security of data transmissions to third parties and public enquiries; and
- compliance with credit/debit card data-handling standards to be delivered in 2010.

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* - identified by Project teams using a PRINCE2 based methodology. These are revised on a regular basis and are overseen by project and programme boards, with standards monitored by our Centre of Programme and Project Excellence (COPPE). Project processes and registers conform to HM Treasury Orange Book and Office of Government Commerce (OGC) guidelines on the Management of Risk - all have regularly reviewed risk registers;

*Operational Activities* - identified and actively managed at a Directorate level via directorate risk registers;

*Corporate* - the top of the DVLA risk hierarchy contains escalated risks from both of the directorate and programme registers. In addition, individual EB members can place risks directly onto the register for areas of concern or any staff can raise issues for the Agency Risk Manager to raise with the EB Directors;

*MFSG and DfT Group* – major escalated risks having an impact across MFSG or potentially even the wider DfT.

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 Management Assurance provided to DfT from the Chief Executive at the year end.

All key delivery partner contracts – with IBM, Post Office®, NSL Services Group (wheel clamping), dealers who use our Automated First Registration and Licensing systems and commercial companies that access our data with formal customer consent – incorporate direct access provisions that our Internal Audit team use to review controls in operation and for us to monitor 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 our COPPE, accredited by an Office of Government Commerce (OGC) approved assessor as meeting the requirements laid down by OGC. EB 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 by the New Initiatives Panel and if successful are allocated to an operational area or, if significant, passed to the Strategy & Feasibility Programme for further study and exploration. Technical aspects are reviewed by the Technical Review Team, stakeholder support sought, design principles established and outline business case developed if appropriate. If the business case is approved and funding prioritised, this is handed over to the Delivery or Infrastructure Programme as appropriate, the Change Release Board has to confirm a timetable for introduction and it goes to the MFSG Investment Appraisal Board for approval if classification as a Strategic Project is indicated.

All significant projects, in both DVLA and DVA (as DVLA's agents in delivering its Vehicle responsibilities in Northern Ireland) are subject to the prescribed OGC and HMT 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 EB. This is chaired by the Director of Finance and Strategy, and attended by a second EB member.

The budgetary controls are supported by the Integrated Resource Management (IRM) monthly planning cycle, which monitors 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. The IRM process is also fundamental as part of our efficiency and Value for Money (VfM) planning and monitoring.

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 DfT Investment Appraisal Framework, through compliance with the ‘Green Book’ and use of the best practice 5-case business model advocated by OGC and HM Treasury.

The COPPE then monitors and tracks programmes through to closure, providing Programme Delivery Board, and EB if significant enough, with advice on project and business decisions, including potentially the cancellation of individual projects if business case changes or risk appraisals (both updated regularly) indicate this to be appropriate. If cancelled prior to successful completion, such projects are fully disclosed in the annual accounts. The *Tracking Vehicles Through the Trade* (TV3T) project cancellation has been so disclosed in the current year accounts. Tier 1 and 2 projects have their business cases considered and budgets approved, together with monthly progress reporting and monitoring by DfT and MFSG Boards.

**Shared Services Arrangements**

Since April 2007 the DVLA Finance, Payroll and HR transactional support functions have been provided by the Shared Service Centre based in Swansea. Responsibility for the governance of the centre and line responsibility for SSC management passed directly to the DfT Director General for Resources in October 2008. Each organisation has its own control responsibility and IA 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 three Assurance Reports during the year on the internal controls operating at the SSC. These present an improved position during the year and, at the year end, a position has been achieved where the internal controls over transactions have reached acceptable levels. Any control weaknesses within the SSC systems during the year were compensated for by additional DVLA controls and have had no direct material impact on the financial transactions and the accuracy of reporting for year-end accounts production. DVLA and DfT Internal Audit have undertaken assurance work on the operation of business unit and SSC elements respectively of the controls in operation so that DVLA has been able to form a view on the effectiveness of the control regime overall.

The action plan to improve SSC financial controls agreed in 2008 has now been substantially delivered. It became apparent during the year that specific reconciliations (mainly in respect of payroll transactions) were not being undertaken in a timely manner, but these were brought up to date by the year end, although some earlier reconciling items have not been fully cleared. However, there were no significant items emerging during the year and only non-material items remain unresolved from the earlier reconciliations, so that we have adequate assurance that the accounts themselves can be robustly constructed. We have agreement with the SSC that these will now be fully undertaken on a timely basis as part of a routine schedule and, together with the other users, have agreed a more robust and stringent reporting schedule.

The emphasis for business units and the SSC during 2009-10 has been on streamlining processes and delivering transactions more efficiently to enable withdrawal of the ‘workarounds’ and achievement of Service Level Agreement targets, such as prompt payment and purchase order compliance, together with business case benefits. Whilst essential for SSC operational efficiency and delivery of business case benefits, changes are only implemented after ensuring that they do not compromise the robustness of the control environment.

The SSC provides monthly assessments of service levels and issues, discussed with DVLA at formal monitoring meetings that I chair. In addition, there are monthly assessments of controls provided to Information Asset Owners as part of the control processes. Work continues on refining the final elements of the Service Level Agreements and the new KPIs being agreed. Approval processes in place, supported by the SSC Design Authority, 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**

Business changes proposed, especially but not exclusively through projects, are examined through business case processes. There are benefits realisation plans and monitoring built in to all such developments and direct periodic reporting to EB. In addition, all procurement and contract management complies with European Commission procurement regulations to ensure full and robust competition for services and products from suppliers. All contracts, including project delivery, have quality plans in place to ensure that the quality aspects of VfM are fully considered and delivered in addition to cost monitoring. The Agency is reinstating its rolling programme of reviews and benchmarking based on Better Quality Services (BQS) principles during 2010 -11 to confirm that a range of the Agency activities provide value for money to customers and are delivered cost effectively.

**Data Handling, Security and Information Risk**

DVLA core functions encompass the management and maintenance of its 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 120m transactions each year in respect of these databases. The DVLA is critically concerned with data security and complies strictly with legislative release provisions, Data Protection Act and Cabinet Office guidelines.

DVLA has again been independently assessed by Communications and Electronic Security Group (CESG) against the Information Assurance Maturity Model and Assessment Framework issued by the Cabinet Office (September 2008). Their report documents significant progress in terms of security and control of our data.

Findings from this review are driving the work of the Information Assurance Group (IAG), including the quarterly assurance reports that are being issued to the Audit Committee as a regular agenda item.
I have recruited a Chief Information Officer (CIO) as one of my five EB members and the IAG group reports directly to him and he does, temporarily, also hold the role of Security of Information Responsible Officer (SIRO). The CESG report quite rightly recommends that I consider separation of the CIO and SIRO responsibilities. However, I am content that the degree and detail of regular reporting to myself by the CIO and (separately) IAG is sufficient to ensure that the lack of CIO/SIRO segregation does not compromise the assurance I receive. There are practical benefits during the agreed and significant current programme of technical security changes from close alignment of the two roles but when the agreed changes have been implemented my intention is to separate the two functions to provide a cross-check for me in terms of assurance.

The independent CESG review provided assurance that we have achieved a general Level 2 rating and have made significant progress at Level 3, with some work at level 4 acknowledged. This tool will be maintained and independently verified on a regular basis. Our aim is to move all of these indicators into the level 3, 4 and 5 areas as this will provide enhanced security of our data - over and above best practice. DVLA is compliant with the recommendations contained in the Data Handling Review and our IT systems are accredited to UK Government standards, with regular independent IT health checks to support accreditation.

The majority of our data transfers have now been migrated from physical media to secure and encrypted electronic channels through our ELISE project 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 are working to move all to electronic transfer as fast as feasible for all parties.

A large proportion of our interaction with the public still involves paper notifications, reminders and documents. We use a secure delivery hub and spoke arrangement to ensure that the risk of loss is minimised when we transfer bulk data in this paper way. This is under regular review to ensure the quality of the security arrangements is maintained.

The DVLA network is accredited to Government security standards and currently a rolling program 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 by a Government Accreditor who is independent of project delivery and has to formally sign off his approval prior to go live. The risks to the data being processed are formally evaluated and recorded in a Risk Management Accredited Document set and the risk assessment score has to meet pre-set criteria prior to going live.

IAG, set up in 2008, is now well established within DVLA and has a key role of ensuring Data Handling Procedures in Government, defined by the Cabinet Office, are met. This group ensures compliance with the report recommendations and looks to develop and further improve the governance frameworks that cover the use, sharing and security of our data. Each data element now has a specific owner called an Information Asset Owner (IAO), responsible for assessing risks to this information and giving permission for its use. The training of IAOs and the central record of information is the responsibility of IAG.

All DVLA staff have completed an online training and assessment course relating to data handling and had to pass the assessment with the pass mark set at 80%, with any failure entailing rework of the training. In addition, all managers had to pass a 'Stage 2'assessment. A changing version of this exercise will be conducted annually.

For all staff, information can 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 completion of major site works at the Swansea HQ has provided layered security and improved physical access control. The most important or sensitive areas of the organisation are well protected - some having biometric access control, which is being widened in its application as this provides significantly enhanced control. Further enhancements are planned for this coming year.

**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, positive and negative, provided by:

- the formal controls assessment completed by the DfT Shared Services Director on the completeness and accuracy of processing in the SSC itself;
- the Information Asset Owner report issued by the SSC SIRO;
- the Information Asset Owner report issued by the DVLA SIRO;
- the review work undertaken by the Programme Project Assurance teams on programmes and projects;
- reporting from the DVLA Fraud Forum chaired by an independent external member;
- reporting on progress with Health and Safety (HS) education, training and safety incidents through the H&S trained team within Corporate Services;
- the work of the data security team within Policy Directorate on access and sensitive records;
- the accuracy team established to monitor and improve data accuracy within our core databases and who undertake external surveys;
- the efficiency reviews by the team based in Corporate Assurance Services (CAS);

- other reports commissioned as reviews of specific control issue areas, notably of process adequacy within the IT security area by CESG;
- independent OGC Gateway reviews of programmes and projects;
- the first audit review of Data Protection Act compliance undertaken by the ICO;
- ISO certification reviews of DVLA functions (e.g. Output Services Group, Estates);
- independent DfT review of VED compliance rates through the annual survey, evaluated by the Government Statistical Service;
- the annual review programme of work undertaken by Internal Audit;
- comments made by External Audit in their Management Letter and other reports.

**Structure of Assurance**
The EB and Audit Committee assist in these processes and the plans to address weaknesses, ensuring continuous improvement of the systems remains a priority. These processes apply to all Agency activities and transactions - both to Agency business and VED accounts.

*Audit Committee*. The DVLA Audit Committee contributes by advising me and my Executive Board, together with guiding the Head of Internal Audit, on matters of governance arrangements, risk management processes, internal control, and compliance of the Agency's accounts with standards, internal and external audit, and assurance. The Committee, which meets quarterly, is chaired by a Non-Executive member and comprises in total the Agency's two Non-Executive Directors and, an additional Non-Executive member supplied by DfT. I and the Director of Finance & Strategy attend Audit Committee meetings as observers.

A single integrated structure has been established as Corporate Assurance Services (CAS) to comprise Internal Audit (IA), Programme and Project Assurance (PPA) and the CAS Review Team, working to common standards and disciplines, providing an integrated model to provide me with the overall assurance that I need.

*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. IA also works collaboratively with other review bodies within the Agency and with the Agency's partners, IBM and Fujitsu. This includes regular consultation, co-ordination of plans and selected reviews, and sharing of information. In response to the ongoing emphasis on information handling risks and Ministerial commitments, IA has further increased its visiting programme to external users of DVLA data during the year to provide additional assurance that DVLA data and information is utilised and maintained in an appropriate manner.

*Programme and Project Assurance.* Programme and Project work is assured independently by the Agency's PPA team, a pool of skilled resources. These provide assurance to EB that Programmes and Projects are being delivered to the highest standards and in accordance with Agency standards.

*CAS Review Team*. The cycle of efficiency reviews and benchmarking contributes to my assurance of VfM delivery as a part of the Agency's operational delivery. The team is accredited by the Institute of Management Consultants.

**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 chaired by the former Non-Executive chairman of the DVLA Audit Committee. DVA projects follow the same project lifecycle arrangements and submit documents for funding approval via the DVLA EB. These are also subject to the assurance oversight by PPA.

**Head of Internal Audit Opinion**
The overall opinion I have received from my HIA for 2009-10 is that she can provide adequate assurance that DVLA's 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 Statement on Internal Control.

A number of minor weakness were identified in 2009-10 in relation to controls operated on behalf of DVLA by the DfT SSC but, as in 2008-09, there is no evidence that these weaknesses have been exploited. Where compensating controls were needed, the Agency took timely actions to address these SSC control gaps and limit the risk of material mis-statement of financial statements.

This current year we have also benefited from an independent KPMG review of the risk and control profile within our VED systems and processes, commissioned by DWP as part of a wider Government review. This has concluded that there are no material financial weaknesses emerging in addition to the evasion losses that DVLA is aware of, is actively managing and has successfully reduced in recent years. The review has made a number of recommendations for improvement, focused on the following areas:

- formalising review of access to the core systems, concentrating on the Database Administrators and immediate review of the accuracy of key table amendments;
- sampling routine amendments of individual vehicle specifications held on record;
- higher profile performance management of debt collection agency activities and formal documentation of action points and findings;
- periodic revalidation of extract parameters to ensure all relevant records remain under scrutiny for enforcement activity – and review of overall statistics to monitor relevance and identify any behavioural changes.

We are addressing these recommendations and will report progress to the VED Governance Board for their assurance in addition to monitoring compliance internally

**Specific Control Issues**

*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 and deliver the correct colour specified. In the event they were unable to do this and sent the forms, as specified in our contract, for secure destruction. Forms were stolen during either transit or destruction, and some of the stolen forms were used to provide fraudulent documentation for criminals. The public were made aware by DVLA of the serial numbers involved as soon as we began to receive fraudulent documents. Enquiries continue with some progress. We regard the event as outside our direct control and as a breach of the contractual conditions by our suppliers, but the contract has now been strengthened. Discussions over the exact form of remedial actions continue with Police and Ministers. This is not a control weakness in year but continues to be of public interest.

*Safeguards against supplier insolvency*. We have had one instance, after the end of the year, of potential loss from this cause, arising from an unusual combination of circumstances. In this case we appear to have had an incident of non-compliance with DVLA process and procedures which resulted in a goods receipting being undertaken without physical receipts of the goods themselves. We are tightening our controls to avoid any similar impacts in future. We are minimising the impact and the final value is not yet known, but a prudent accounting estimate has been adopted in the accounts for 2009-10.

During 2009-10, there was 1 reported breach of the Data Protection Act involving DVLA data. The Information Commissioner's Office (ICO) was notified of the breach and no further action was required of us by the ICO. There is no suggestion that this information breach could have been used to facilitate financial fraud against customers. There have been 10 other low level data breach incidents, either involving non-personal data or very small numbers, so these did not require us to formally inform the ICO. However, we meet ICO regularly and are open about such breaches although not requiring formal notification.

N.C. Shanahan

Noel Shanahan
Accounting Officer
24 June 2010

# 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 a statement of accounts for each financial year 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 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 and prepare the financial statements on a going concern basis.

The Accounting Officer for the Agency as a Trading Fund 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.

**VED Accounts**

Under Section 2 of the Exchequer and Audit Departments Act 1921, HM Treasury has directed the Driver and Vehicle Licensing Agency (DVLA) to prepare a Vehicle Excise Duty (VED) Account for each financial year detailing the revenue and expenditure in respect of VED falling outside of the boundary of the Agency's Business Account. The VED Account is prepared on an accruals basis and must give a true and fair view of the collection and allocation of VED, 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 VED Account does not estimate the duty foregone because of non-compliance with the VED regime.

In preparing the VED Account, 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 have been followed; and
- disclose and explain any material departures in the VED Account.

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.

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

I certify that I have audited the financial statements of the Driver and Vehicle Licensing Agency ("the Agency") for the year ended 31 March 2010 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 applicable law and 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 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 the Driver and Vehicle Licensing Agency's affairs as at 31 March 2010 and of its surplus, changes in taxpayers' equity and cash flows for the year then ended; and

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

**Opinion on other matters**

In my opinion:

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

**Matters on which I report by exception**

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

- adequate accounting records have not been kept; or
- 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**

I have no observations to make on these financial statements.

**Amyas CE Morse**
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SWIW 9SP
13 July 2010

# DVLA Business Accounts for 2009-10

## Statement of Comprehensive Income for the year-ended 31 March 2010

| | Note | **2009-10 £000** | **2009-10 £000** | 2008-09 £000 | 2008-09 £000 |
|---|---|---|---|---|---|
| **Income from operations** | | | | | |
| Income from activities | | **461,192** | | 437,546 | |
| Other operating income | | **233,101** | | 214,085 | |
| **Total income from operations** | 3 | | **694,293** | | 651,631 |
| **Expenditure** | | | | | |
| Operating costs | 5 | **(355,186)** | | (376,316) | |
| Staff costs | 4 | **(165,661)** | | (168,247) | |
| Depreciation, amortisation & impairment | 8 | **(26,702)** | | (29,033) | |
| Less: Government grant release | | **5,490** | | 6,210 | |
| **Total operating expenditure** | | | **(542,059)** | | (567,386) |
| **Operating surplus** | | | **152,234** | | 84,245 |
| Finance income | 6 | **301** | | 2,364 | |
| Finance costs | 6 | **(3,403)** | | (2,236) | |
| **Net finance (costs)/income** | | | **(3,102)** | | 128 |
| Surplus payable to Consolidated Fund | | | **(108,157)** | | (105,043) |
| Dividend payable | 7 | | **(5,903)** | | (4,386) |
| **Retained surplus/(deficit) for the year** | 3 | | **35,072** | | (25,056) |
| **Other comprehensive income** | | | | | |
| Net gain on revaluation of property, plant and equipment | 8 | | **4,393** | | 1,790 |
| Net gain on revaluation of intangible assets | 9 | | **1,775** | | 3,720 |
| **Other comprehensive income for the year** | | | **6,168** | | 5,510 |
| **Total comprehensive surplus/(deficit) for the year** | | | **41,240** | | (19,546) |

All income and expenditure are derived from continuing operations. Notes forming part of these accounts appear on pages 60 to 96.

## Statement of Financial Position
## as at 31 March 2010

| | Note | 31 March 2010 | 31 March 2009 | 1 April 2008 |
|---|---|---|---|---|
| | | **£000** | £000 | £000 |
| **Non-current assets:** | | | | |
| Property, plant and equipment | 8 | **87,382** | 85,104 | 81,726 |
| Intangible assets | 9 | **95,203** | 87,149 | 86,693 |
| Trade and other receivables due after more than one year | 10 | **8,014** | 3,833 | 6,103 |
| ***Total non-current assets*** | | **190,599** | 176,086 | 174,522 |
| **Current assets:** | | | | |
| Trade and other receivables | 10 | **67,559** | 58,838 | 83,961 |
| Cash and cash equivalents | 11 | **60,687** | 50,579 | 45,769 |
| ***Total current assets*** | | **128,246** | 109,417 | 129,730 |
| **Total assets** | | **318,845** | 285,503 | 304,252 |
| **Current Liabilities** | | | | |
| Trade and other payables | 12 | **(82,011)** | (83,390) | (85,336) |
| Provisions for liabilities and charges | 14 | **(3,223)** | (3,141) | (6,686) |
| ***Total current liabilities*** | | **(85,234)** | (86,531) | (92,022) |
| **Non-current assets plus/less net current assets/liabilities** | | **233,611** | 198,972 | 212,230 |
| **Non-current liabilities** | | | | |
| Trade and other payables due after more than one year | 12 | **(33,793)** | (39,938) | (26,215) |
| Provisions for liabilities and charges | 14 | **(12,170)** | (11,510) | (12,056) |
| ***Total non-current liabilities*** | | **(45,963)** | (51,448) | (38,271) |
| **Assets less liabilities** | | **187,648** | 147,524 | 173,959 |
| **Taxpayers' equity:** | | | | |
| General Fund | | **110,098** | 75,026 | 109,117 |
| Revaluation reserve | | **33,313** | 27,145 | 21,635 |
| Government grant reserve | | **25,189** | 26,305 | 24,159 |
| Public dividend capital | | **19,048** | 19,048 | 19,048 |
| **Total taxpayers' equity** | | **187,648** | 147,524 | 173,959 |

Notes forming part of the accounts appear on pages 60 to 96.

N. C. Shanahan

**Noel Shanahan**
Accounting Officer
24 June 2010

## Statement of Cash Flows for the year ended 31 March 2010

| | Note | 2009-10 £000 | 2008-09 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Retained surplus /(deficit) for the year** | | **35,072** | (25,056) |
| Adjustments for non cash items: | | | |
| Loss on disposal, depreciation, amortisation & impairment | 8&9 | **26,702** | 29,033 |
| Government Grant release | | **(5,490)** | (6,210) |
| Net financing costs/(income) | 6 | **3,102** | (128) |
| (Increase)/decrease in trade and other receivables | 10 | **(12,902)** | 18,943 |
| Increase/(decrease) in trade payables | 12 | **499** | (259) |
| *Less movements relating to items not passing through the Statement of Comprehensive Income* | | | |
| Use/(creation) of provisions | 14 | **314** | (4,133) |
| ***Net cash inflow from operating activities*** | | **47,297** | 12,190 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 8 | **(5,660)** | (8,019) |
| Purchase of intangible assets | 9 | **(19,799)** | (6,791) |
| Finance income | 6 | **301** | 2,364 |
| ***Net cash outflow from investing activities*** | | **(25,158)** | (12,446) |
| **Cash flows from financing activities** | | | |
| Government grant received in year | | **4,374** | 11,230 |
| Finance costs | 6 | **(2,975)** | (2,194) |
| Capital element of payments in respect of finance leases and on-balance sheet PFI contracts | | **(13,430)** | (3,970) |
| *Net cash used in financing activities* | | **(12,031)** | 5,066 |
| ***Net financing:*** | | | |
| **Net increase in cash and cash equivalents in the period** | | **10,108** | 4,810 |
| **Cash and cash equivalents at the beginning of the period** | 11 | **50,579** | 45,769 |
| **Cash and cash equivalents at the end of the period** | 11 | **60,687** | 50,579 |

Notes forming part of these accounts appear on pages 60 to 96.

# Statement of Changes in Taxpayers' Equity
## for the year ended 31 March 2010

| | General Fund £000 | Revaluation Reserve (iv) £000 | Government Grant Reserve £000 | Public Dividend Capital £000 | Total Reserves £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 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** |

# Statement of Changes in Taxpayers' Equity
## for the year ended 31 March 2009

| | Note | General Fund £000 | Revaluation Reserve(iv) £000 | Government Grant Reserve £000 | Public Dividend Capital £000 | Total Reserves £000 |
|---|---|---|---|---|---|---|
| Balance at 1 April 2008 | | 109,117 | 21,635 | 24,159 | 19,048 | 173,959 |
| Deficit for the year ended 31 March 2009 | | (25,056) | - | - | - | (25,056) |
| Other Comprehensive Income | | | | | | |
| Gain on revaluation of property, plant and equipment | (ii) | - | 1,790 | - | - | 1,790 |
| Net gain on revaluation of intangible assets | | - | 3,720 | - | - | 3,720 |
| Government grant release | (iii) | - | - | (9,669) | - | (9,669) |
| Government grant received in year | | - | - | 2,780 | - | 2,780 |
| Transfers between reserves | (i) | (9,035) | - | 9,035 | - | - |
| Total Other Comprehensive Income | | (9,035) | 5,510 | 2,146 | - | (1,379) |
| Total Comprehensive Income for 2008-09 | | (34,091) | 5,510 | 2,146 | - | (26,435) |
| Balance at 31 March 2009 | | 75,026 | 27,145 | 26,305 | 19,048 | 147,524 |

(i) During 2008-09 the Agency re-classified that portion of SLA income (£9.035m) received between April 2004, when DVLA became a Trading Fund, and March 2008 that related to projects in respect of vehicle licensing as government grants. The result was to remove funding previously classified as income from the Retained Surplus

Reserve and apply the funding as a Grant to the Government Grant Reserve. The transfer amount represented the depreciated value of the assets funded and was apportioned as follows:

2004-05 £5.4m, 2005-06 £1.4m, 2006-07 £1.1m and 2007-08 £1.135m.The movement in the General Fund reflects this reclassification of SLA income and the deficit for the year resulting from the downturn in the volume of the Agency's fee-earning transactions.

(ii) The movement in the Revaluation Reserve takes into account the revaluation of the Agency's Land and Buildings undertaken by external chartered surveyors in March 2009.

(iii) The Government Grant reserve movement during 2008-09 reflects the transfer of Shared Services assets to DfT on 31 March 2009 accounting for £3.4m of the total release for the year £9.6m

(iv) The amount of the revaluation reserve that relates to intangible assets at 31 March 2010 is £8.3m (31 March 2009: £6.5m, 1 April 2008; £2.8m).

# Notes to the accounts

## Note 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2009-10 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. Prior years have been re-stated in accordance with IFRS (see Note 2). 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 for the purpose of giving a true and fair view has been selected. Except as noted below the particular policies adopted by the Agency have been applied consistently in dealing with items that are considered material to the accounts.

### New standards and interpretations adopted early

The entity has taken the option of adopting the amendment to IFRS 8 Operating Segments. The amendment clarifies that segmental information for total assets is required only if such amounts are regularly reported to the chief operating decision-maker. Application of the amendment is required for reporting periods beginning on or after 31 January 2010 but early adoption is permitted.

### New standards and interpretations not yet adopted

Other than those adopted early as explained above, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2010, and have not been applied in preparing these financial statements. These include:

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.

IAS 7 Statement of Cash Flows, which has been amended. The amendment to IAS 7 clarifies that only expenditure that results in the recognition of an asset (rather than simply to generate future income and cash flows) can be classified as a cash flow from investing activities. Application of the amended IAS 7 is required for reporting periods beginning on or after 1 January 2010. Earlier application is permitted. It is planned that IAS 7 will be applied initially in 2010-2011. Initial application of the revised IAS 7 is expected to have limited impact.

IAS 24 Related Party Disclosures has been revised. The revisions to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled, or significantly influenced by a government. Application of the revised IAS 24 is required for reporting periods beginning on or after 1 January 2011. Earlier application is permitted. It is planned that IAS 24 will be applied initially in 2011-2012. Initial application of the revised IAS 24 will result in partial exemption from the disclosure requirements of IAS 24, and the relevant disclosures may be reduced from those presented in 2009-10.

IAS 17 Leases has been amended. The revision clarifies that where a lease includes both land and buildings elements, they are separately assessed in accordance with the general guidance on the classification of leases in IAS 17, taking into account that land normally has an indefinite economic life. Thus the land element may be classified as a finance lease, even if title is not expected to pass to the lessee. Application of the amended IAS 17 is required for reporting periods beginning on or after 1 January 2010. Earlier application is permitted. It is planned that IAS 7 will be applied initially in 2010-11. Initial application of the revised IAS 7 is expected to have limited impact.

**FreM**

The Government Financial and Reporting Manual (FreM) includes the following accounting changes that have been issued and will be effective in 2010-11:

Accounting for consolidated fund revenue: Introduction of Trust statements for revenue collected by entities that is due to the Consolidated Fund. This will have an impact on the disclosures in the Agency's financial statements.

**Accounting convention**

These accounts 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 25 April 2006. They meet the 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.

**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 VED collection and enforcement activities is delivered by volume-related Service Level Agreements (SLA's) rather than grants - managed by DfT on behalf of HMT as the tax recipients.

The following major sources of income - Sale of Marks, 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 as it is received in profit or loss. 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 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 intervening years between full valuations of Land and Buildings an index-linked revaluation is performed.

Plant and machinery, fixtures and fittings, computer equipment 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 the Investment Property Databank Capital Growth Index for Office Properties (including PFI office property) as mentioned above.

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 majority of the Agency's assets are grouped together for the purposes of capitalisation. All additions to grouped fixed assets are capitalised. The minimum level for capitalisation as an individual non-grouped asset is £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 (DRC).

The value of the Driver and Vehicle databases, including unallocated vehicle registration marks, cannot be estimated. The Sale of Marks 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 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 |

The estimated remaining useful lives of buildings at Morriston on 31 March 2010 are 39 years (A Block) and 24 years (all others) with those at Swansea Vale at 35 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 former employees who have taken early retirement. Compensation is payable from the date of retirement until age 60.

The Agency is responsible for 20% 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 in 2009-10 a Flexible Early Retirement (FER) scheme.

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 VER and FER provision.

Future payments to be made under the Early Departure and Voluntary Retirement schemes are discounted at the HM Treasury advised rate of 1.8%, (2008-09: 3.2%).

**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 2010.

**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 partnership costs**

The strategic IT partner (IBM) supplies an end-to-end IT service to DVLA, including the provision of IT equipment. The risks and rewards of ownership of that equipment remain with the partner and are therefore not capitalised on the DVLA's Balance Sheet. Strategic partnership costs 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%.

**Research and development**

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

**PFI Contract**

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:-

- Cleaning
- Catering and Vending
- Furniture Repair
- Grounds Maintenance
- Building Maintenance
- Office Moves
- Furniture Replacement
- 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 are carrying out a refurbishment of the Swansea HQ site. This is now substantially complete. Where the work is capital in nature (air conditioning, double-glazing, lifts and specialist cabling), the costs are capitalised when Independent Assessors sign off 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.

The construction and fit-out of the Felinfach premises at Fforestfach and the construction of the first phase of A Block were added to the PFI contract in 2007-08 with the second phase of A Block completed in September 2008. The above additions to the contract were capitalised and depreciated in line with the Agency's depreciation policy. The title for A Block and the premises at Fforestfach rests with the Agency.

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 FReM 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 and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Agency’s cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Non-derivative financial liabilities comprise trade and other payables, obligations under finance leases and obligations under on-balance sheet PFI contracts. 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 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 15 – Commitments under leases (PCAPM lease)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:-

Note 4 - Holiday Pay Accrual;
Note 8 - Property, Plant and Equipment (tangible useful life);
Note 9 - Intangible Assets (intangible carrying value);
Note 14 - Provisions for liabilities and charges.

**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 human resources, finance, procurement and payroll services to a number of Business Units within DfT and became operational in April 2007.

Prior to 31 March 2009 the assets relating to the Shared Service Centre were held by the DVLA and the SSC income and costs were ring-fenced within the DVLA ledgers, with the financial results of the SSC disclosed in full within a separate note within the DVLA accounts. This was the accounting treatment adopted up to and including the accounts for the year ended 31 March 2009.

In October 2008 the governance arrangements surrounding the SSC changed, with the responsibility for SSC management passing directly to the DfT Director General for Resources. Within the 2008-09 financial year the accounting processes and arrangements remained in place and a decision was taken, in the interests of completeness and transparency to continue with an accounts disclosure for the whole year on a consistent basis to allow comparison with prior years.

SSC assets recognised in the Agency's accounts were transferred to the Department on 31 March 2009 and are now accounted for as part of the DfT Statement of Financial Position. The financial revenue results are also recognised within the DfT accounts for 2009-10. DVLA recharges DfT for the costs incurred on its behalf in terms of staff on loan, 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 and work on loan to DfT.

## Note 2: First-time adoption of IFRS - Reconciliation of Equity

| **31 March 2009** | **General Fund £000** | **Revaluation Reserve £000** | **Government Grant Reserve £000** | **Public Dividend Capital £000** | **Total £000** |
|---|---|---|---|---|---|
| Taxpayers' equity at 31 March 2009 under UK GAAP | 52,042 | 20,194 | 26,305 | 19,048 | 117,589 |
| Cumulative impact on tax payers' equity at 31 March 2009 for IFRS | | | | | |
| Adjustments for: | | | | | |
| IFRIC 12 Service Concession Arrangements | (1,022) | - | - | - | (1,022) |
| IAS 16 Property, plant & equipment | (411) | 411 | - | - | - |
| IAS 17 Leases | 25,705 | - | - | - | 25,705 |
| IAS 19 Employee Benefits | (1,225) | - | - | - | (1,225) |
| IAS 37 Provisions, Contingent Liabilities and Contingent Assets | 895 | - | - | - | 895 |
| IAS 38 Intangible Assets | (958) | 6,540 | - | - | 5,582 |
| **Taxpayers' equity at 31 March 2009 under IFRS** | **75,026** | **27,145** | **26,305** | **19,048** | **147,524** |

| **1 April 2008** | **General Fund £000** | **Revaluation Reserve £000** | **Government Grant Reserve £000** | **Public Dividend Capital £000** | **Total £000** |
|---|---|---|---|---|---|
| Taxpayers' equity at 31 March 2008 under UK GAAP | 82,684 | 6,477 | 24,159 | 19,048 | 132,368 |
| Impact on tax payers' equity at 31 March 2008 for IFRS | | | | | |
| Adjustments for: | | | | | |
| IFRIC 12 Service Concession Arrangements | (317) | - | - | - | (317) |
| IAS 16 Property, plant & equipment | | 12,338 | - | - | 12,338 |
| IAS 17 Leases | 27,084 | - | - | - | 27,084 |
| IAS 19 Employee Benefits | (1,228) | - | - | - | (1,228) |
| IAS 37 Provisions, Contingent Liabilities and Contingent Assets | 894 | - | - | - | 894 |
| IAS 38 Intangible Assets | - | 2,820 | - | - | 2,820 |
| **Taxpayers' equity at 1 April 2008 under IFRS** | **109,117** | **21,635** | **24,159** | **19,048** | **173,959** |

## Reconciliation of deficit for the year ended 31 March 2009

| | £000 |
|---|---|
| **Net (deficit) for the year ended 31 March 2009 under UK GAAP** | **(21,607)** |
| Adjustments for: | |
| IFRIC 12 Service Concession Arrangements | (705) |
| IAS 16 Property, plant & equipment | (411) |
| IAS 17 Leases | (1,379) |
| IAS 19 Employee Benefits | 3 |
| IAS 37 Provisions, Contingent Liabilities and Contingent Assets | 1 |
| IAS 38 Intangible Assets | (958) |
| **Net (deficit) for the year ended 31 March 2009 under IFRS** | **(25,056)** |

**Explanation of material adjustments to statement of cash flows for the year ended 31 March 2009**

The CFER surplus paid to the consolidated fund of £111.1m during 2008-09 is classed as operating cash flows in accordance with IFRS, but were including in financing activities in accordance with UK GAAP. The dividend paid of £4.7m during 2008-09 is also classed as operating cash flows in accordance with IFRS but included as the Return on Investments and Servicing of Finance category in accordance with UK GAAP. Interest received of £2.4m is included in investing activities in accordance with IFRS but included in the Return on Investments and Servicing of Finance category under UK GAAP. Interest payable of £2.2m is a new cash flow under IFRS due to the changes in accounting for the PFI agreement and PCAPM finance lease. Previously these cash flows were included within operating cash flows. There are no other material differences between the statement of cash flows presented in accordance with IFRS and the statement of cash flows presented in accordance with UKGAAP.

## Note 3. Segmental Reporting

| **2009-10 Operating Segments** | **Fees** | **Sale of Marks** | **VED Collection** | **VED Enforcement** | **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) |
| CFER payments to HM Treasury | (41,126) | (67,031) | - | - | - | (108,157) |
| Segment surplus | 44,770 | - | - | - | (693) | 44,077 |

| | |
|---|---|
| *Reconciliation of reportable segment revenues & retained surplus* | |
| Finance income | 301 |
| Finance cost | (3,403) |
| Dividend payable | (5,903) |
| **Retained surplus for year** | **35,072** |

| **2008-09 Operating Segments** | **Fees** | **Sale of Marks** | **VED Collection** | **VED Enforcement** | **Additional Funding (i)** | **2008-09 Total** |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Revenue | 339,507 | 81,593 | 130,157 | 83,928 | 16,446 | 651,631 |
| Expenditure | (317,325) | (15,000) | (130,157) | (83,928) | (20,976) | (567,386) |
| CFER payments to HM Treasury | (38,450) | (66,593) | - | - | - | (105,043) |
| Segment deficit | (16,268) | - | - | - | (4,530) | (20,798) |

*Reconciliation of reportable segment revenues & retained surplus*

| | |
|---|---|
| Finance income | 2,364 |
| Finance costs | (2,236) |
| Dividend payable | (4,386) |
| Retained deficit for year | (25,056) |

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 and therefore the Agency is early adopting the amendment to IFRS 8 paragraph 23 to not report this information.

(i) Additional Funding in 2008-09 includes amounts received from DfT in reimbursement for expenditure incurred by DVLA in running the Shared Service Centre.

### Fine Income (see Note 24)

DVLA collected £41.7m in fine income in 2009-10 (2008-09: £49.1m). £41.7m (2008-09: £49.1m) was surrendered directly to HM Treasury and does not form part of the Trading Fund income, with the third party costs of collection £2.6m (2008-09: £2.2m) deducted at source.

## Note 4. Staff numbers and related costs

Staff costs comprise:

| 2009-10 | Permanently employed staff | Others - Short-term contract/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 14) | **5,184** | **-** | **5,184** |
| **Total net costs** | **160,204** | **5,457** | **165,661** |

| 2008-09 | Permanently employed staff | Others - Short-term contract/agency staff | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Wages and salaries | 126,674 | 8,070 | 134,744 |
| Social security costs | 8,504 | 457 | 8,961 |
| Other pension costs | 21,697 | 292 | 21,989 |
| Voluntary early retirement costs (note 14) | 2,553 | - | 2,553 |
| **Total net costs** | 159,428 | 8,819 | 168,247 |

DVLA staff working at the SSC on loan to DfT are not included in the above costs for 2009-10 as the recharges to DfT for their salaries are excluded from the DVLA Statement of Comprehensive Income. Included within 2008-09 is £7.9m in respect of these employees on loan to SSC.

The Holiday Pay accrual (Employee Benefits IAS 19) at 31 March 2010 is £3,013,003 (31 March 2009: £1,225,000).

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 2009-10, employers' contributions of £21,597,421 were payable to the PCSPS (2008-09: £21,771,665) at one of four rates in the range 16.7% to 24.3% (2008-09: 17.1% to 25.5%) 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 were revised for 2009-10 and will be reviewed in 2010-11. 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 £213,452 (2008-09: £204,507) 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% to 12.5% (2008-09: 3.0% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £15,287 (0.8%; 2008-09: £15,530, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. 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**

The average number of whole-time equivalent persons employed during the year was as follows:

| **2009-10** | **Permanent staff (FTEs)** | **Others -Short term contract/agency staff (FTEs)** | **Total (FTEs)** |
|---|---|---|---|
| Directly employed as reflected in the costs above | **5,556** | **163** | **5,719** |
| Staff working on loan to the DfT SSC | **249** | **47** | **296** |
| **Total** | **5,805** | **210** | **6,015** |

| 2008-09 | Permanent staff (FTEs) | Others -Short term contract/agency staff (FTEs) | Total (FTEs) |
|---|---|---|---|
| Directly employed as reflected in the costs above | 5,686 | 281 | 5,967 |
| Staff working on loan to the DfT SSC | 224 | 14 | 238 |
| Total | 5,910 | 295 | 6,205 |

## Note 5. Operating Costs

| | 2009-10 | 2008-09 |
|---|---|---|
| | £000 | £000 |
| **Agent Costs** | | (re-stated iv) |
| Major contracted-out services | **161,053** | 181,096 |
| Northern Ireland agency costs (i) | **13,181** | 13,591 |
| PFI Estates unitary charge | **17,860** | 19,304 |
| Payments to medical practitioners | **9,932** | 9,107 |
| | **202,026** | 223,098 |
| **Other Direct Costs** | | |
| Postal related expenses | **30,488** | 24,055 |
| Stationery and printing | **12,897** | 13,444 |
| Publicity and marketing costs | **13,417** | 11,192 |
| Maintenance | **8,370** | 9,217 |
| IT development support | **19,034** | 15,378 |
| Other IT expenditure | **10,072** | 8,397 |
| Cost of blank cards | **10,409** | 9,402 |
| Rates | **9,583** | 7,993 |
| Rentals under operating leases | **5,080** | 4,464 |
| Travel, subsistence and hospitality | **2,767** | 4,449 |
| Telecommunications | **3,304** | 3,120 |
| Recruitment | **(309)** | 859 |
| Management Consultancy | **3,235** | 12,592 |
| Credit Card Charges | **10,616** | 9,334 |
| Training | **1,265** | 1,555 |
| Other items | **6,779** | 4,167 |
| Department for Transport costs | **1,625** | 469 |
| Auditors' remuneration (ii) | **136** | 135 |
| Shared Services Recharge (iii) | **4,392** | - |
| Shared Service Costs (iv) | **-** | 12,996 |
| **Total Operating Costs** | **355,186** | 376,316 |

(i) Note that these costs are provided in full detail in the DVA resource accounts, which can be obtained from DVA Finance, County Hall, Castlerock Road, Coleraine BT51 3HS.

(ii) Auditor's remuneration comprises a cash charge for the statutory audit of the DVLA business accounts of £85,000 (2008-09: £85,000) and IFRS TP4 of £25,000 (2008-09: £25,000) exercise along with a notional fee for the statutory audit of the VED account of £26,000 (2008-09: £25,000).

(iii) From 2009-10 DfT accounts for all SSC income and costs. Accommodation and IT services remain delivered through DVLA contracts, and staff working at the SSC on loan to DfT remain on DVLA contracts of employment (see Note 4). 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. The cost to DVLA for the services it received from SSC during the 2009-10 year was £4.392m (2008-09: £4.497m).

(iv) The 2008-09 comparative figures have been represented to disclose expenditure excluding the shared services costs, which have been disclosed separately.

| **2008-09** | Total costs | Shared Service Centre element | As restated (DVLA element only) |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Agent Costs** | | | |
| Major contracted-out services | 190,482 | (9,386) | 181,096 |
| **Other Direct Costs** | | | |
| Postal related expenses | 24,093 | (38) | 24,055 |
| Stationery and printing | 13,552 | (108) | 13,444 |
| Maintenance | 9,234 | (17) | 9,217 |
| IT development support | 16,442 | (1,064) | 15,378 |
| Other IT expenditure | 8,692 | (295) | 8,397 |
| Rates | 8,260 | (267) | 7,993 |
| Travel, subsistence and hospitality | 4,622 | (173) | 4,449 |
| Telecommunications | 3,760 | (640) | 3,120 |
| Recruitment | 876 | (17) | 859 |
| Management Consultancy | 12,912 | (320) | 12,592 |
| Training | 1,615 | (60) | 1,555 |
| Other items | 81,776 | (611) | 81,165 |
| Shared Service Centre costs | - | 12,996 | 12,996 |
| **Total** | 376,316 | - | 376,316 |

## Note 6. Finance income/ (costs)

| Finance Income | **2009-10** | 2008-09 |
|---|---|---|
| | **£000** | £000 |
| Bank interest | **301** | 2,364 |
| **Total finance income** | **301** | 2,364 |
| | | |
| Finance Costs | | |
| Interest on imputed finance lease element of on balance sheet PFI contracts | **(1,929)** | (1,695) |
| Interest on finance lease liabilities | **(1,046)** | (499) |
| Unwinding of discount and impact of changes in discount rate on provisions | **(428)** | (42) |
| **Total finance cost** | **(3,403)** | (2,236) |
| | | |
| **Net finance (costs)/income** | **(3,102)** | 128 |

## Note 7. Dividends and Return on Capital Employed

| | **2009-10** | **2008-09** |
|---|---|---|
| | **£000** | **£000** |
| 3.5% Return on capital employed | **5,903** | 4,386 |
| Dividend Payable | **5,903** | 4,386 |

The average return on net assets over the period 1 April 2009 to 31 March 2010 was 25% against the financial target of an average 3.5%. This dividend is limited to the annual average target of 3.5%.

# Note 8. Property, plant and equipment

| 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 & Equipment are covered by the PFI contract and are included in Note 16. For 2009-10, these are £989,271 (2008-09: £2,414,000).

| 2008-09 | 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 2008 | 4,080 | 41,441 | 50,145 | 7,661 | 42,132 | 2,125 | **147,584** |
| Additions | - | 14,507 | 1,773 | 3 | 2,170 | - | **18,453** |
| Disposals | - | (54) | (9,987) | (4) | (806) | - | **(10,851)** |
| Transfer | - | - | 1,585 | - | 523 | (2,108) | **-** |
| Revaluations | - | (1,967) | (1,243) | 342 | 728 | - | **(2,140)** |
| **At 31 March 2009** | **4,080** | **53,927** | **42,273** | **8,002** | **44,747** | **17** | **153,046** |
| **Depreciation** | | | | | | | |
| At 1 April 2008 | - | 2,836 | 42,517 | 5,945 | 14,560 | - | **65,858** |
| Charged in year | - | 1,732 | 4,183 | 504 | 4,579 | - | **10,998** |
| Disposals | - | (16) | (7,109) | (2) | (265) | - | **(7,392)** |
| Impairments | - | - | 281 | - | - | - | **281** |
| Revaluations | - | (1,645) | (1,039) | 280 | 601 | - | **(1,803)** |
| **At 31 March 2009** | **-** | **2,907** | **38,833** | **6,727** | **19,475** | **-** | **67,942** |
| **Net book value at 31 March 2008** | 4,080 | 38,605 | 7,628 | 1,716 | 27,572 | 2,125 | **81,726** |
| **Net book value at 31 March 2009** | **4,080** | **51,020** | **3,440** | **1,275** | **25,272** | **17** | **85,104** |
| **Asset financing** | | | | | | | |
| Owned | 3,700 | 25,622 | 3,440 | 1,275 | 14,889 | 17 | **48,943** |
| On-balance sheet PFI contracts | 380 | 25,398 | - | - | 10,383 | - | **36,161** |
| **Net book value at 31 March 2009** | **4,080** | **51,020** | **3,440** | **1,275** | **25,272** | **17** | **85,104** |

The Agency does not hold any Property, Plant and Equipment assets financed by finance lease other than PFI.

In 2008-09 depreciation charged included £932,000 in relation to SSC related assets. These assets were transferred to the Department of Transport on 31 March 2009 at their net book value of £3,459,000.

## 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 April 1 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 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 (DRC) 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 end of March 2010 index not considered to be materially different. Office property (including PFI office property) was revalued as at 31 March 2010 using data from the Investment Property Databank Capital Growth Index for Office Properties. 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. In selecting these indices, the DVLA took advice from Drivers Jonas Deloitte.

The net book value of land includes freehold £3.7m (2008-09: £3.5m) and leasehold £0.6 (2008-09: £0.6m). (Richard Ley Development Centre £0.2 (125 year lease) and Fforestfach £0.4 (999 year lease)). The net book value of buildings relates to DVLA property with PFI buildings/refurbishment having a net book value of £25.0m (2008-09: £25.4m).

**Analysis of depreciation, amortisation and impairment line in Statement of Comprehensive Income**

| **2009-10** | **Total** | **Financed by Govt Grant** |
|---|---|---|
| | **£000** | **£000** |
| Depreciation of tangible fixed assets (note 8) | 9,328 | - |
| Loss on disposals | 19 | - |
| Amortisation of intangible assets (note 9) | 17,355 | 5,490 |
| | **26,702** | **5,490** |

| **2008-09** | **Total** | **Financed by Govt Grant** |
|---|---|---|
| | **£000** | **£000** |
| Depreciation of tangible fixed assets (note 8) | 10,998 | - |
| Loss on revaluation of IT equipment | 204 | - |
| Loss on revaluation of land & buildings at Morriston/Fforestfach | 1,923 | - |
| Impairment of assets transferred to DfT | 281 | - |
| Amortisation of intangible assets (note 9) | 15,627 | 6,210 |
| | **29,033** | **6,210** |

## Note 9. Intangible assets

The Agency holds a perpetual software licence with Electronic Data Systems Ltd 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.

| **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** |

| **2008-09** | **Software** | **Assets Under Construction** | **Total** |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| **Cost or Valuation** | | | |
| At 1 April 2008 | 186,433 | 5,447 | 191,880 |
| Additions | 8,231 | 4,132 | 12,363 |
| | | | |
| Disposals | (33,753) | - | (33,753) |
| Transfer | 3,890 | (3,890) | - |
| Revaluation | 3,720 | - | 3,720 |
| | | | |
| **At 31 March 2009** | 168,521 | 5,689 | 174,210 |
| | | | |
| **Amortisation** | | | |
| At 1 April 2008 | 105,187 | - | 105,187 |
| Charged in year | 15,627 | - | 15,627 |
| Disposals | (33,753) | - | (33,753) |
| **At 31 March 2009** | 87,061 | - | 87,061 |
| | | | |
| **Net book value at 31 March 2008** | 81,246 | 5,447 | 86,693 |
| **Net book value at 31 March 2009** | **81,460** | **5,689** | **87,149** |

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 £89.4m (2008-09: £81.6m).

The £33.8m disposals in 2008-09 reflects the change in governance and related asset transfer to DfT in respect of the Shared Services Centre. These assets were fully amortised following their impairment in 2007-08.

Intangible additions of £9.9m (2008-09: £4.1m) 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 2010 £38,510,100 (31 March 2009: £35,612,000) has been financed by finance lease.

Significant Intangible assets controlled by the Agency are detailed below:

| | **31 March 2010** | | | **31 March 2009** | | |
|---|---|---|---|---|---|---|
| **Asset** | **Remaining Useful economic life (months)** | **Net Book Value £000** | **£000** | **Remaining Useful economic life (months)** | **Net Book Value £000** | **£000** |
| **Electronic Vehicle Re- licensing** | **46** | | **12,583** | 58 | | 15,523 |
| **Sale of Marks** | **69** | | **5,662** | 81 | | 6,503 |
| **Vehicle System** | | | | | | |
| ***Software*** | | | | 6 | 388 | |
| ***Re-platforming*** | **59** | | **7,445** | 71 | 8,766 | |
| | | | | | | 9,154 |
| **Drivers re-engineering** | | | | | | |
| ***Phase 1*** | **108** | **27,549** | | 120 | 29,891 | |
| ***Phase 2*** | **72** | **2,754** | | | | |
| ***Phase 2.1*** | ***AUC*** | **1,681** | | *AUC* | 1,681 | |
| | | | **31,984** | | | 31,572 |
| **Ten Year Renewal** | | | | | | |
| ***Phase 2*** | **71** | **402** | | | | |
| ***Phase 2*** | ***AUC*** | **1,670** | | *AUC* | 1,670 | |
| ***Enhancement*** | ***AUC*** | **6,123** | | *AUC* | 781 | |
| | | | **8,195** | | | 2,451 |

***AUC relates to Assets Under Construction***

# Note 10. Trade and other receivables

| | 31 March 2010 £000 | 31 March 2009 £000 | 1 April 2008 £000 |
|---|---|---|---|
| **Amounts falling due within one year:** | | | |
| Trade receivables | **5,162** | 5,815 | 1,485 |
| Other receivables | **63** | 211 | 221 |
| Public sector debtors | **16,092** | 9,841 | 17,431 |
| VAT | **9,161** | 3,968 | 10,623 |
| Prepayments | **24,886** | 19,301 | 24,341 |
| Accrued income | **2,538** | 12,811 | 22,465 |
| PACT contract prepayment | **7,771** | 5,208 | 5,928 |
| PFI prepayment | **1,886** | 1,683 | 1,467 |
| | **67,559** | 58,838 | 83,961 |
| **Amounts falling due after more than one year:** | | | |
| PACT contract prepayment | **8,014** | 3,833 | 6,103 |
| **Total** | **75,573** | 62,671 | 90,064 |

Trade receivables 2009-10 of £5.1m (2008-09 £5.8m) includes £3.6m (2008-09 £4.9m) in relation to Sale of Marks auctions. This amount will, after deduction of costs, be paid over to HM Treasury during the subsequent financial year.

Included within prepayments is £19.4m (2008-09 : £19.2 m) in respect of a payment to the Post Office® for services to be provided in 2010-11 plus £15.8m (2008-09 : £9.0m which relates to a service charge provided by IBM in relation to computer hardware utilised in providing services to DVLA. Both sets of payments delivered improved terms of contract but are assessed on an annual basis to ensure value for money before they are made.

## Note 11. Cash and cash equivalents

| | **31 March 2010 £000** | 31 March 2009 £000 | 1 April 2008 £000 |
|---|---|---|---|
| Balance at 1 April | **50,579** | 45,769 | 42,493 |
| Net change in cash and cash equivalent balances | **10,108** | 4,810 | 3,276 |
| **Balance at 31 March** | **60,687** | 50,579 | 45,769 |
| **The following balances at 31 March were held at** | | | |
| Office of HM Paymaster General (OPG) | **54,890** | 45,907 | 41,474 |
| Commercial banks and cash in hand | **5,797** | 4,672 | 4,295 |
| **Balance at 31 March** | **60,697** | 50,579 | 45,769 |

OPG provides a current account banking service and the balance held of £54.89m (2008-09: £45.91m) includes £27,258m (2008-09: £24,756m) held on behalf of HM Treasury and £5.903m (2008-09: £4.386m) due to DfT, both paid over soon after the year end (see Note 12).

## Note 12. Trade and other payables

| | **31 March 2010 £000** | 31 March 2009 £000 | 1 April 2008 £000 |
|---|---|---|---|
| **Amounts falling due within one year** | | | |
| Trade payables | **18,248** | 15,391 | 14,937 |
| Accruals and deferred income | **27,828** | 34,135 | 37,093 |
| Current part of finance leases | **607** | 3,276 | 2,188 |
| Current part of imputed finance lease element of on balance sheet PFI contracts | **1,570** | 1,446 | 942 |
| Dividend Payable | **5,903** | 4,386 | 5,242 |
| Cash balance payable to the Consolidated Fund | **27,258** | 24,756 | 21,657 |
| Other - capital accrual | **597** | - | 3,277 |
| | **82,011** | 83,390 | 85,336 |
| **Amounts falling due after more than one year:** | | | |
| Finance leases | **-** | 5,537 | 2,933 |
| Imputed finance lease element of on-balance sheet PFI contracts | **33,793** | 34,401 | 23,282 |
| | **33,793** | 39,938 | 26,215 |
| **Total** | **115,804** | 123,328 | 111,551 |

The capital creditor figure includes work undertaken as part of the PFI contract as follows:

| **PFI Creditor** | **2009-10** | **2008-09** |
|---|---|---|
| | **£000** | £000 |
| 1 April | **35,847** | 24,224 |
| Increase due to assets capitalised | **976** | 12,797 |
| Amount paid in relation to assets capitalised | **(1,460)** | (1,174) |
| 31 March | **35,363** | 35,847 |

# Note 13. Financial Instruments

(i) Fair values

The fair values of the Agency's financial assets and liabilities as at 31 March 2010 are shown below. With the exception of Finance Lease and 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.

| | **2009-10** | **2009-10** | 2008-09 | 2008-09 |
|---|---|---|---|---|
| | **Fair value** | **Carrying amount** | Fair value | Carrying amount |
| | **£000** | **£000** | £000 | £000 |
| **Financial Assets** | | | | |
| Cash and cash equivalents (note 11) | **60,687** | **60,687** | 50,579 | 50,579 |
| Loans and receivables (note 10) | | | | |
| - Trade receivables | **5,162** | **5,162** | 5,815 | 5,815 |
| - Other receivables | **63** | **63** | 211 | 211 |
| - Public sector receivables (N.B. includes VAT) | **25,253** | **25,253** | 13,809 | 13,809 |
| - Accrued income | **2,538** | **2,538** | 12,811 | 12,811 |
| Total loans and receivables | **33,016** | **33,016** | 32,646 | 32,646 |
| Total financial assets | **93,703** | **93,703** | 83,225 | 83,225 |
| **Financial liabilities** | | | | |
| Trade and other payables (note 12) | | | | |
| - Trade payables | **18,248** | **18,248** | 15,391 | 15,391 |
| - Accruals | **27,828** | **27,828** | 34,135 | 34,135 |
| - Dividend payable | **5,903** | **5,903** | 4,386 | 4,386 |
| - Cash balance payable to the Consolidated Fund | **27,258** | **27,258** | 24,756 | 24,756 |
| - Finance leases | **623** | **607** | 9,020 | 8,813 |
| - Imputed finance lease element of on-balance sheet PFI contracts | **34,468** | **35,363** | 35,013 | 35,847 |
| Capital Accruals | **597** | **597** | - | - |
| Total financial liabilities | **114,925** | **115,804** | 122,701 | 123,328 |

The fair values above have been calculated using the discount rate implicit in the Finance leases

(ii) 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 page 43).

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, providing advice on operational budgets and project affordability to the Executive Board (EB). Chaired by the Director of Finance, the EB meets on a monthly basis.
- Monthly reporting (including KPIs, income and expenditure) to Executive Board and our Sponsor Directorate at DfT: Motoring & Freight Services (MFS).
- Monthly programme expenditure reporting to Programme Delivery Board, EB and MFS.
- Quarterly review of budgets at Executive Board Financial Review (EBFR).

(iii) 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 (NLF), transferring funds from its HM Office of Paymaster General (OPG) account. 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 £93,703,000 (31 March 2009: £83,225,000) represents the maximum credit exposure.

The ageing of receivables at the reporting date was:

| | **2010 Gross £000** | **2010 Impairment £000** | 2009 Gross £000 | 2009 Impairment £000 |
|---|---|---|---|---|
| Not past due | **32,003** | **-** | 31,245 | - |
| Past due 0-30 days | **176** | **-** | 600 | - |
| Past due 31-120 days | **830** | **-** | 523 | - |
| More than 120 days | **7** | **-** | 359 | 81 |
| **Total** | **33,016** | **-** | 32,727 | 81 |

There has been no impairment provision for 2009-10 (2008-09: £81,000 relating solely to Sale of Marks debtors). 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:

| | **2010 £000** | 2009 £000 |
|---|---|---|
| Balance at 1 April | **81** | 57 |
| Impairment loss - payment received | **(81)** | 24 |
| Balance at 31 March | **-** | 81 |

(iv) 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 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) | - | - | - |
| Under PFI | 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) | - | - | - |
| Under PFI | 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)** |

**31 March 2009**

| 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 | 8,813 | (9,821) | (2,124) | (1,700) | (2,895) | (3,102) | - |
| Under PFI | 35,847 | (53,732) | (1,679) | (1,679) | (3,358) | (10,075) | (36,941) |
| Total | **44,660** | **(63,553)** | **(3,803)** | **(3,379)** | **(6,253)** | **(13,177)** | **(36,941)** |

| 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 | 9,020 | (9,020) | (2,077) | (1,626) | (2,646) | (2,671) | - |
| Under PFI | 35,013 | (35,013) | (1,634) | (1,590) | (3,012) | (8,110) | (20,667) |
| Total | **44,033** | **(44,033)** | **(3,711)** | **(3,216)** | **(5,658)** | **(10,781)** | **(20,667)** |

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

(v) Market Risk

***Interest rates***

The Agency has been exposed to interest rate movements on its cash balances only. The Agency does not have any borrowings or investments. Cash balances are held in short term, floating interest-earning accounts and a significant portion are held in HM Office of Paymaster General (OPG). 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 | |
|---|---|---|
| | **2010** | **2009** |
| | **£000** | £000 |
| **Fixed Rate instruments** | | |
| PCAPM Finance Leases | **(607)** | (8,813) |
| PFI | **(35,363)** | (35,847) |
| Financial Liabilities | **(35,970)** | (44,660) |
| | | |
| **Variable Rate instruments** | | |
| Interest bearing bank accounts | **49,498** | 36,428 |

***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% 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 2008-09.

| | **Surplus or Deficit: 0.5% increase/(decrease)** | |
|---|---|---|
| | £'000 | £'000 |
| 31 March 2009 | 182 | (182) |
| 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 14. Provisions for liabilities and charges

| 2009-10 | Early departure costs | Tax officers' pension costs | Total |
|---|---|---|---|
| | **£000** | **£000** | **£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 flows*

| 2009-10 | Early departure costs | Tax officers' pension costs | Total |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| In the remainder of the Spending Review period (to 2011) | 2,518 | 705 | 3,223 |
| Between 2012 and 2016 | 6,872 | 2,405 | 9,277 |
| Between 2017 and 2021 | 811 | 1,085 | 1,896 |
| Thereafter | 102 | 895 | 997 |
| **Balance at 31 March 2010** | **10,303** | **5,090** | **15,393** |

| 2008-09 | Early departure costs | Tax officers' pension costs | Total |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Balance at 1 April 2008 | 11,591 | 7,151 | 18,742 |
| Provided in the year | 2,553 | - | 2,553 |
| Provisions utilised in the year | (5,407) | (1,279) | (6,686) |
| Unwinding of discount and impact of changes in discount rate | 42 | - | 42 |
| Balance at 31 March 2009 | **8,779** | **5,872** | **14,651** |

*Analysis of expected timing of discounted flows*

| 2008-09 | Early departure costs | Tax officers' pension costs | Total |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| In the remainder of the Spending Review period (to 2010) | 2,328 | 813 | 3,141 |
| Between 2011 and 2015 | 6,001 | 2,774 | 8,775 |
| Between 2016 and 2020 | 450 | 1,252 | 1,702 |
| Thereafter | - | 1,033 | 1,033 |
| **Balance at 31 March 2009** | **8,779** | **5,872** | **14,651** |

*Early departure costs*

The Agency meets the additional costs of benefits beyond the normal PCSPS/Stakeholder scheme benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS/Stakeholder schemes over the period between early departure and normal retirement 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 1.8%, (2008-09: 3.2%).

*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 IFRS 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 1.8%.

# Note 15. Commitments under leases

### *Operating leases*

**Obligations under operating leases comprise:**

| | **31 March 2010 £000** | 31 March 2009 £000 | 1 April 2008 £000 |
|---|---|---|---|
| **Buildings** | | | |
| Not later than one year | **6,740** | 6,190 | 5,927 |
| Later than one year and not later than five years | **18,493** | 17,434 | 15,579 |
| Later than five years | **22,261** | 18,841 | 10,780 |
| | **47,494** | 42,465 | 32,286 |
| **Other:** | | | |
| Not later than one year | **137** | 117 | 179 |
| Later than one year and not later than five years | **159** | 71 | 231 |
| Later than five years | **-** | - | - |
| | **296** | 188 | 410 |

### *Finance leases*

**Obligations under finance leases comprise:**

| | **31 March 2010 £000** | 31 March 2009 £000 | 1 April 2008 £000 |
|---|---|---|---|
| **Other:** | | | |
| Not later than one year | **648** | 3,824 | 2,500 |
| Later than one year and not later than five years | **-** | 5,997 | 3,216 |
| Later than five years | **-** | - | - |
| *Less interest element* | **(41)** | (1,008) | (595) |
| | **607** | 8,813 | 5,121 |

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 16. Commitments under PFI on-balance sheet contracts

*On-balance sheet*

| | 31 March 2010 | 31 March 2009 | 1 April 2008 |
|---|---|---|---|
| | **£000** | £000 | £000 |
| Total obligations under on-balance sheet PFI contracts for the following periods comprises: | | | |
| Not later than one year | **3,452** | 3,358 | 2,186 |
| Later than one year and not later than five years | **13,809** | 13,433 | 8,743 |
| Later than five years | **34,522** | 36,941 | 26,230 |
| | **51,783** | 53,732 | 37,159 |
| *Less interest element* | **(16,420)** | (17,885) | (12,935) |
| | **35,363** | 35,847 | 24,224 |

In addition to the above as at 31 March 2010, the Agency is committed to £989,271 (2008-09: £2,414,000) of capital expenditure under the PFI contract. This work is planned for 2010-11.

*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 £17,859,833 (2008-09: £19,304,000) and the payments to which the Agency is committed during 2010-11, analysed by the period during which the commitment expires, is as follows:

| | | | |
|---|---|---|---|
| | **£000** | £000 | £000 |
| Sixteen to twenty years | **17,734** | 17,696 | 19,988 |

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 17. Other financial commitments

The Agency has entered into non-cancellable contracts (which are not leases or PFI 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:

| | **2009-10** | 2008-09 | 1 April 2008 |
|---|---|---|---|
| | **£000** | £000 | £000 |
| Not later than one year | **17,307** | - | - |
| Later than one year and not later than five years | **147,127** | 369,541 | 424,794 |
| Later than five years | **602,900** | 47,535 | - |
| | **767,334** | 417,076 | 424,794 |

## Note 18. Contingent Liabilities

At March 2009, there was one contingent liability disclosed: DVLA had agreements with IBM in terms of future service payments for new systems developments that could crystallise if the contract were not to be renewed in September 2012. During 2009-10 two actions have been taken – the IBM contract has been renewed until September 2015, by which time liabilities would have been discharged, and the IFRS compliant disclosure has now presented the full outstanding liabilities on the balance sheet. This is no longer a contingent liability.

The Public and Commercial Services Union has lodged an equal pay claim on behalf of DVLA Executive Officers using the DSA Driving Examiners and Senior Driving Examiners as comparators. The Agency has obtained advice from Counsel and has provided evidence to the Employment Tribunal, the outcome of which is not expected prior to the signing of the Accounts. The Agency considers it inappropriate to provide any additional information on the risk and possible financial implication, as this could be seen as pre-empting the Tribunal's decision.

## Note 19. Losses and abandoned enforcement cases

| | **2009-10 Number of cases** | **2009-10 Value** | 2008-09 Number of cases | 2008-09 Value |
|---|---|---|---|---|
| **Losses written off in year** These are cash losses due to abandoned claims for payments from customers. | **619** | **£38,414** | 1,093 | £63,000 |
| **Abandoned enforcement cases** These are mitigated penalties offered in lieu of prosecution for vehicle excise duty evasion that are waived mainly owing to notices unable to be served, out of time court cases, liquidation and so on. | **158,884** | **£5,571,060** | 126,769 | £5,042,000 |
| **Special Payments** Ex-gratia payments | **1,321** | **£139,000** | 1,351 | £102,000 |

## Losses

### 2009-10

One of our key suppliers for high-technology mailing equipment has a German parent company who have had to undertake a financial restructuring in early 2010-11. The estimated exposure for DVLA has been included as a provision within the Statement of Comprehensive Income, within the relevant expenditure categories (Printing & Despatch and maintenance). We are optimistic that this loss may not actually crystallise, but are adopting a prudent accounting approach and will update the estimates in our AR&A in 2010-11. We and the SSC have increased our control for the future, though this will slow our payment processes for a restricted category of purchases.

### Update on 2008-09 Accounts

During 2008-09 a review was undertaken of the VINI (Vehicle Integration Northern Ireland) project and it was recognised that a proportion of the previous expenditure would no longer contribute to the solution to be delivered. This had already been expensed through the I&E Account in years between 2003-04 and 2007-08 as incurred and none had capitalised to be carried forward. During 2009-2010, the NI vehicles systems were updated and physically relocated to DVLA data centres in Swansea, enabling support for DVA operations to be delivered via DVLA's existing IT contract. This has been done to facilitate a future migration when the earlier design work will provide a valuable start point from which to work to provide citizens in NI with similar facilities as those on the mainland. The current value of the work undertaken previously remains difficult to quantify accurately.

DVLA established a project in 2005 to monitor vehicles as they pass from private ownership into the dealer network and then through various transfers within the network until resold for use on the road – "Tracking Vehicles Through the Trade (TV3T). Further consideration during 2008-09 indicated that the project objectives could be better approached in a slightly different way - by working closely with manufacturers and dealers and using outputs from their systems rather than through the original extensive development of the DVLA system.
The initial design and specification work, stakeholder consultation and feasibility studies cost some £7.9m developing solution options between 2005 and 2008. More recent technical work and discussions with manufacturers, together with policy issues arising from the questions of mandation and legislative cover raised a number of detailed issues The development of new requirements, building on the designs previously produced, re-commenced in 2009-2010. A good proportion of the design and specification was re-usable, both for the manufacturers / dealers and for DVLA to interface with its own systems, but there was a proportion of the initial

expenditure that was no longer directly utilised as a part of the solution. With the full solution yet to be detailed or agreed, it is not possible to estimate how much of the initial work will be re-usable with any accuracy.

## Note 20. Related parties

DVLA is sponsored by the Motoring & Freight Services Group (MFSG), a directorate of 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 VED 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, Passport Service, and 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 21. Intra-government balances

| | **31 March 2010 £000 Receivables** | **31 March 2010 £000 Payables** | 31 March 2009 £000 Receivables | 31 March 2009 £000 Payables | 1 April 2008 £000 Receivables | 1 April 2008 £000 Payables |
|---|---|---|---|---|---|---|
| Central Government bodies | **11,177** | **19,434** | 23,286 | 20,103 | 44,107 | 26,569 |
| Trading Funds and Public Corporations | **33,627** | **1,500** | 19,282 | - | 22,153 | - |
| Local Authorities | **602** | **-** | 25 | - | 97 | - |
| **Total Intra-government balances** | **45,406** | **20,934** | 42,593 | 20,103 | 66,357 | 26,569 |

## Note 22. 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 4 to the accounts.

## Note 23. 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 VED 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® (£38m) 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 2010 the balance of funds remaining, amounting to £4.7m was held in a non-interest earning account with HM Office of Paymaster General. This cash balance and the associated creditor balance representing amounts owed to stamp holders are excluded from the Statement of Financial Position presented on page 56.

## Note 24. Fine Income Remitted to HM Treasury

| **Source** | **2009-10** | 2008-09 |
|---|---|---|
| | **£000** | £000 |
| CR Fine Income | **14,927** | 22,967 |
| Traditional Enforcement | **12,142** | 11,049 |
| Wheelclamping | **7,897** | 7,879 |
| Debt Collectors | **6,724** | 7,203 |
| **Total** | **41,690** | 49,098 |

DVLA and HM Treasury have also 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 HM Treasury.

| **Debt Collection** | **2009-10** | 2008-09 |
|---|---|---|
| | **£000** | £000 |
| Total amount collected | **9,338** | 9,357 |
| Commission paid to Debt Collectors | **(2,614)** | (2,154) |
| Amount transferred to Treasury | **6,724** | 7,203 |

As at of 31 March 2010, DVLA held cash totalling £18.6m (2008-09: £9.2m) in respect of fine income collected on behalf of HM Treasury.

## Note 25. Late Licence Penalties

DVLA does not account for late licensing penalties (LLP) in its records because they are considered to be Treasury receipts and are transferred directly to the Consolidated Fund. The purpose of this note is to provide an estimate of LLP fine income outstanding at the balance sheet date. This note therefore reflects figures not displayed in DVLA's accounts but provides information on the movement in late licence penalty estimated debtor.

Late Licensing Penalty 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 induced by the debt collection agents. 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 - thus eliminating LLP income from the business accounts. Fine income used to cover agents' commission costs is transferred to offset the cost to DVLA.

| | **2009-10 £000** | 2008-09 £000 |
|---|---|---|
| Open LLP cases @ 1 April | **9,222** | 11,122 |
| LLP issues | **55,581** | 73,300 |
| LLP Collected – DVLA | **(14,612)** | (20,000) |
| LLP Collected - Agents (gross) | **(10,168)** | (9,300) |
| Cases Written Off | **(30,891)** | (45,900) |
| Open LLP cases @ 31 March | **9,132** | 9,222 |

## Note 26. Events after the Reporting Period

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

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.

# The Certificate and Report of the Comptroller and Auditor to the General to the House of Commons

I certify that I have audited the Driver and Vehicle Agency's Vehicle Excise Duty (VED) Account for the year ended 31 March 2010 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 Accounting Officer and auditor**

As explained more fully in the Statement of the Agency and Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and 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 Vehicle Excise Duty Account 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 am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments 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 Vehicle Excise Duty Account 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 financial position as at 31 March 2010 relating to the collection and allocation of Vehicle Excise Duty and of its net revenue and cash flows for the year then ended; and

- the Vehicle Excise Duty Account 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 management commentary 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 report on the Driver and Vehicle Licensing Agency's arrangements for the assessment, collection, and proper allocation of revenue is at pages 108 to 110.

**Amyas CE Morse**
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SWIW 9SP
13 July 2010

# VED Account for the Year Ended 31 March 2010

## Statement of Revenue and Expenditure for the year ended 31 March 2010

| | | Notes | 2009-10 £m | 2008-09 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| | Vehicle Excise Duty raised | 2 | **5,742** | 5,543 |
| | **Total Revenue** | | **5,742** | 5,543 |
| **Expenditure** | | | | |
| | Payments to HM Revenue and Customs | 3 | **(1)** | (3) |
| | Amounts written off | 4 | **(2)** | (2) |
| | **Total Expenditure** | | **(3)** | (5) |
| **Net Revenue for the Consolidated Fund** | | | **5,739** | 5,538 |

Notes forming part of these accounts appear on pages 102 to 107.

## Statement of Financial Position
## as at 31 March 2010

| | Notes | **31 March 2010 £m** | 31 March 2009 £m | 1 April 2008 £m |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Trade and other receivables | 5 | **110** | 2 | 2 |
| Cash and cash equivalents | 6 | **72** | 47 | 35 |
| **Total Current Assets** | | **182** | 49 | 37 |
| **Current Liabilities** | | | | |
| Deferred income | 7 | **(2,523)** | (2,509) | (2,469) |
| Trade and other payables | 7 | **(28)** | (11) | (12) |
| **Total Current Liabilities** | | **(2,551)** | (2,520) | (2,481) |
| **Total Net Liabilities** | | **(2,369)** | (2,471) | (2,444) |
| Represented by: | | | | |
| **Balance on Consolidated Fund Account as at 31 March 2010** | 9 | **(2,369)** | (2,471) | (2,444) |

Notes forming part of these accounts appear on pages 102 to 107.

Noel Shanahan
Accounting Officer
24 June 2010

## Statement of Cash Flows
## for the year ended 31 March 2010

| | 2009-10 | 2008-09 |
|---|---|---|
| | **£m** | £m |
| **Net Funds as at 1 April** | **47** | 35 |
| Net revenue for the consolidated fund | **5,739** | 5,538 |
| (Increase) in non-cash assets | **(108)** | - |
| Decrease in liabilities | **31** | 39 |
| Net cash flow from revenue activities | **5,662** | 5,577 |
| Cash paid to consolidated fund | **(5,637)** | (5,565) |
| Increase in cash in this period | **25** | 12 |
| **Net Funds as at 31 March** | **72** | 47 |

Notes forming part of these accounts appear on pages 102 to 107.

# Notes to the VED Account

## Note 1. Statement of Accounting Policies

### 1.1 Basis of Accounting

The Vehicles Excise Duty (VED) Account is produced in accordance with the accounting policies detailed below. Those policies relating to revenue were developed by the DVLA in consultation with HM Treasury and are based on the International Accounting Standards Board's Framework. Other accounting policies comply with International Financial Reporting Standards (IFRS) to the extent that it is meaningful and appropriate. The accounting policies have been applied consistently throughout.

### 1.2 Accounting Convention

These accounts have been prepared on an accruals basis and in accordance with the historical cost convention.

### 1.3 General Accounting Policies

#### 1.3.1 Revenue

All Vehicle Excise Duty receivable is shown net of refunds in the Revenue and Expenditure Statement. Refunds are accounted for on a cash basis and recognised in the year in which payment is made. The year-end balance also reflects income deferred to future accounting periods and is broken down across each payment channel in note 2.

#### 1.3.2 Business Accounts

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

a. Fines and Penalties (fines collected by the Civil Courts are paid to the Ministry of Justice)
b. Fixed Assets
c. Losses and abandoned enforcement cases
d. Cost of collection and enforcement of VED

#### 1.3.3 Bad and Doubtful Debts

In order to give a true and fair view, it is necessary to make allowance for Vehicle Excise Duty revenue, 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.

#### 1.3.4 Evasion

The costs of VED evasion are outside the scope of the Vehicle Excise Duty Account. Evasion is discussed more fully in the Management Commentary.

#### 1.3.5 VED Exemption

The VED financial implications of exemption have been estimated for the Vehicle Excise Duty Account and are discussed in greater detail in note 8 Exemption is also outside the scope of the VED Account.

#### 1.3.6 Related Party Disclosure

The Agency is part of DfT. It has a large number of Vehicle Excise Duty transactions with both Local and Central Government bodies; at present these are not separately identifiable by DVLA.

### 1.3.7 Deferred Income

Deferred income in respect of the Post Office®, AFRL, EVL 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 minimus. A proportion of the deferred income balance will be claimed as a refund of duty during 2010-11. The value of refund for 2009-10 is set out in note 2.

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

| | 2009-10 £m | 2008-09 £m |
|---|---|---|
| **Over the Counter** | | |
| Post Office® | **3,059** | 3,232 |
| Local Offices | **353** | 381 |
| **Sub Total** | **3,412** | 3,613 |
| **Electronically** | | |
| Electronic Vehicle Licensing | **2,148** | 1,752 |
| Motor Manufacturing | **251** | 305 |
| Fleet Operators | **128** | 120 |
| Telephone Relicensing | **4** | 1 |
| **Sub Total** | **2,531** | 2,178 |
| Amounts refunded | **(201)** | (248) |
| **Total** | **5,742** | 5,543 |

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).

## Note 3. 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; and
- contracts signed on or before 12 January 2004 in respect of classes of vessel not explicitly covered by EC Regulation 1540/98.

During 2009-10 DVLA made payments to HMRC of £1.320m (2008-09: £2.818m).

## Note 4. Amounts Written Off

| | **2009-10** **£m** | 2008-09 £m |
|---|---|---|
| Amounts written off | **2** | 2 |

Amounts written off include:

- £0.494m for cases where the Agency is unable to trace the offender (2008-09: £0.514m);
- £0.992m for cases of successful prosecutions in court where the revenues were collected by the Home Office (2008-09: £0.986m); and
- £0.571m where the applicant returned the VED licence disc and this was voided (cancelled) (2008-9: £0.674m).

A provision of 11% is made for doubtful dishonoured cheque cases resulting in a movement of £0.013m in 2009-10 (2008-09: £0.028m).

## Note 5. Trade and other receivables

| | **31 March 2010 £m** | 31 March 2009 £m | 1 April 2008 £m |
|---|---|---|---|
| Motor Trade receivables and Other receivables | **110** | 2 | 2 |

Trade and other receivables include:
Motor trade receivables (Automated First Registration & Licensing (AFRL) dealers) for 2009-10 were £0.018m (2008-09: nil);
Other receivables include dishonoured cheque debtors of £2.2m (2008-09: £2.0m), which are shown net of a provision for doubtful debts; and
Other sundry receivables of £0.006m (2008-09: £0.072m).
VED income of £108.0m collected by the Post Office in 2009-10 but paid to DVLA in 2010-11

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

## Note 6. Cash and cash equivalents

| | **31 March 2010 £m** | 31 March 2009 £m | 1 April 2008 £m |
|---|---|---|---|
| Cash at bank, in hand and in transit | **72** | 47 | 35 |

The cash at bank balances are held at HM Paymaster General and commercial banks.

## Note 7. Trade and other payables

| | **31 March 2010 £m** | 31 March 2009 £m | 1 April 2008 £m |
|---|---|---|---|
| Deferred income | **2,523** | 2,509 | 2,469 |
| Motor trade payables | **28** | 11 | 12 |
| | **2,551** | 2,520 | 2,481 |

Motor trade payables 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 (£8.9m).

Vehicle Excise Duty is paid in advance. The deferred income balance relates to income received in 2009-10 for Vehicle Excise Duty which relates to 2010-11.

## Note 8. Exemptions

Some vehicles are exempt from Vehicle Excise Duty. 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 2009-10.

| **2009-10**<br>**Exempt Category** | **PLG** | **HGV** | **Others** | **Total** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Vehicles exempt from holding a VED licence * | **15** | **5** | **9** | **29** |
| Vehicles issued with a nil value licence ** | **238** | **11** | **17** | **266** |
| Former Special Concessionary Group *** | **19** | **50** | **4** | **73** |
| **Total** | **272** | **66** | **30** | **368** |

| 2008-09<br>**Exempt Category** | **PLG** | **HGV** | **Others** | **Total** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Vehicles exempt from holding a VED licence * | 14 | 2 | 10 | 26 |
| Vehicles issued with a nil value licence ** | 218 | 8 | 10 | 236 |
| Former Special Concessionary Group *** | 19 | 49 | 4 | 72 |
| **Total** | 251 | 59 | 24 | 334 |

* - These include ambulances, fire engines and crown vehicles
** - These include disabled vehicles and historic vehicles, as detailed below:-
*** - These include agricultural vehicles

| **2009-10**<br>**Exempt disabled and historic vehicles** | **PLG** | **HGV** | **Others** | **Total** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Disabled | **189.9** | **0.4** | **6.7** | **197.0** |
| Historic | **36.6** | **6.4** | **4.2** | **47.2** |

| **2008-09**<br>**Exempt disabled and historic vehicles** | **PLG** | **HGV** | **Others** | Total |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Disabled | 186.6 | 0.4 | 4.8 | 191.8 |
| Historic | 36.4 | 6.3 | 4.1 | 46.8 |

In addition, it is estimated that some 5.7m vehicles pass through the trade each year.
The average number of vehicles registered as SORN during 2009-10 was 1.7m (2008-09: 1.6m).
Vehicles held in the trade and vehicles registered as SORN are not liable to VED.

## Note 9. Balance on Consolidated Fund Account

| | **2009-10** | 2008-09 |
|---|---|---|
| | **£m** | £m |
| Balance as at 1 April | **(2,471)** | (2,444) |
| Net Revenue for the Consolidated Fund | **5,739** | 5,538 |
| Less amount paid to Consolidated Fund | **(5,637)** | (5,565) |
| **Balance on the Consolidated Fund Account as at 31 March** | **(2,369)** | (2,471) |

# Vehicle Excise Duty 2009-10 Accounts

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

## Background

1 The Driver and Vehicle Licensing Agency (the Agency) is responsible for the collection of Vehicle Excise Duty (VED) on behalf of the Secretary of State for Transport. In 2009-10, £5.7 billion (2008-09: £5.5 billion) of revenue was collected by the Agency, as reported in the VED Account, and £5.6 billion was paid over to the Exchequer.

2 The Exchequer and Audit Departments Act 1921 requires me to carry out a review of the systems in place to collect revenue payable to the Exchequer and to report my findings to the House of Commons. This report records the outcome of my review and my conclusions as to the adequacy of the systems in place during 2009-10.

## Conclusion

3 The work of my staff has confirmed that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue and that these regulations and procedures are being duly carried out.

## Summary of key findings

4 In respect of 2009, the Department for Transport (the Department) has estimated that VED was evaded on 0.7 per cent of vehicles (2008: 1.0 per cent) with a loss of around £34 million[1] or 0.6 per cent by value (2008: £50 million; 0.9 per cent). This indicates that the Agency has a robust system for the collection of VED revenue.

5 The risk that compliance rates would fall as a result of the recession has not materialised. There are a number of possible reasons for this including the Agency's action to prevent evasion during the economic downturn.

6 In 2008-09, the Agency trialled Late Licensing Reminder letters targeting keepers who have failed to re-licence their vehicle within two weeks of the licence expiring. The outcome of this trial was positive with 28.7% of recipients returning to compliance. Additional trials supported these findings and the Agency has now introduced this as a routine part of its compliance strategy.

## Compliance with Vehicle Excise Duty

### Measuring compliance

7 Each year, the Department for Transport carries out a Roadside Survey to estimate the level of compliance with the requirement to pay VED. 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.

8 My staff carried out a review of the 2009 Roadside Survey and concluded that it was sufficiently robust to provide an accurate indication of the level of compliance. Notwithstanding this, in previous reports I and my predecessors have made a number of recommendations regarding improvements that could be made to the Roadside Survey.

9 The Department considers that the existing methodology is sufficiently robust and reliable and that further major redesign would not offer value for money at this time. However, some work is planned to look at factors, such as the distribution of the survey sites and how minor road sites are weighted to ensure that the sample remains representative.

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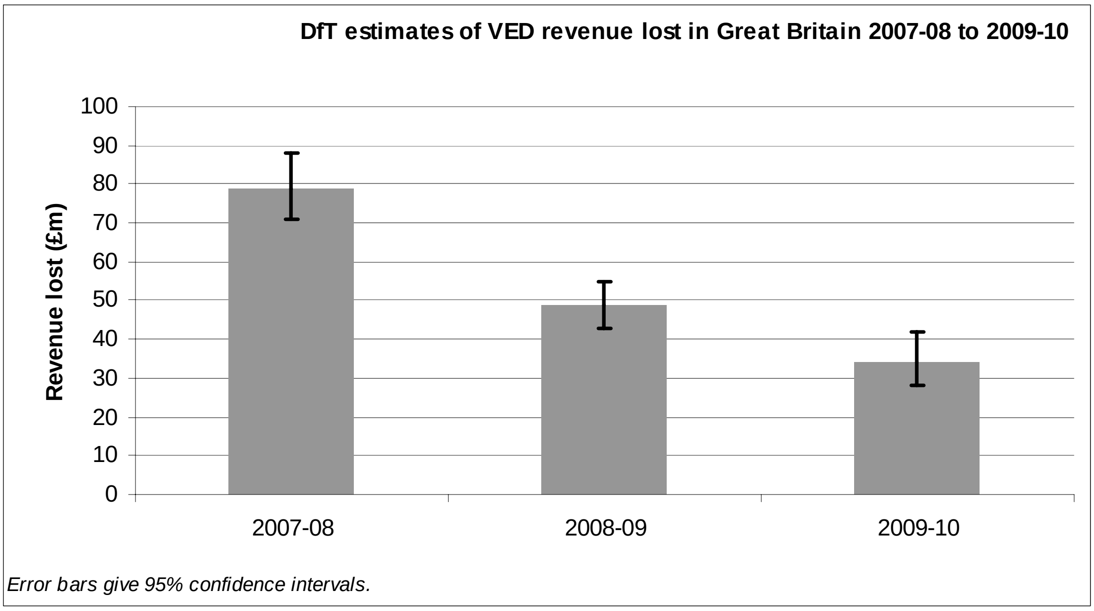
[1] The Transport Statistics Bulletin: Vehicle Excise Duty Evasion 2009 cited a loss of revenue of £34 million based on interrogation of the vehicles record in June 2009. This figure does not include revenue lost due to evasion in Northern Ireland due to statistical uncertainty. Additional uncertainty arises from the use of the June record for an estimate for the whole of 2009-10. This uncertainty does not, however, affect our overall assessment of the effectiveness of the systems in place.

10 I agree with the Department's assessment that no significant changes should be undertaken at the present time. Both the Department and the NAO will, however, continue to assess the appropriateness of the Roadside Survey on an ongoing basis.

## Estimated levels of compliance

11 In my 2008-09 Report, I discussed the possibility that the level of compliance would reduce as a result of the economic downturn. The results of the Roadside Survey, supported by evidence from the Agency's own monitoring, have shown that this has not been the case.

12 The 2009 survey, carried out in June 2009, indicated that, if the results were typical of the level of compliance throughout the 2009-10 financial year, VED was evaded on 0.7 per cent of vehicles (2008: 1.0 per cent) with a loss of around £34 million or 0.6 per cent by value (2008: £50 million 0.9 per cent). The Agency therefore collected 99.4%[2] of VED payable in Great Britain. The chart below shows the reduction over time in the estimated revenue lost through evasion of VED in Great Britain.




*Source: Transport Statistics Bulletins: Vehicle Excise Duty Evasion*

13 These figures will be understated slightly due to the exclusion of VED lost through evasion in Northern Ireland. Due to the small sample sizes, it is not possible to estimate reliably but 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 because Northern Ireland VED accounted for only £166.9m of the £5.7bn collected in 2009-10: 2.9% of the whole.

## Processes that ensure compliance

14 My staff examined governance and transactional processes implemented by the Agency to ensure compliance with the VED regime and found that these were adequate.

15 The VED Collection and Enforcement Governance Board, comprising members from the Department, the Agency and HM Treasury, oversees the collection of VED. The Board meets quarterly and covers a range of topics relevant to the collection of VED. The governance framework is robust and the Board, which represents a range of relevant stakeholders, presents an effective challenge function helping to ensure the adequacy and effectiveness of its governance framework.

16 The Agency's Tactical Compliance Group (TCG), which was set up in the 2008-09 financial year, continues to meet regularly to evaluate data on evasion trends and uses this information to improve compliance and

[2] All estimates are subject to statistical uncertainty. The 95% confidence intervals for tax evaded are 0.5% to 0.8% equivalent to £28 million to £42 million by value. This indicates a collection rate of between 99.2% and 99.5%.

enforcement action. The Agency is developing a range of management information to support effective targeting of resources for example in areas shown to have high levels of evasion. This work is supported by a revised compliance strategy with a focus on encouraging compliance among soft evaders and continuing to maintain the low evasion rate.

17 At a transactional level my staff have reviewed the processes and controls in place for ensuring the receipt of VED by the Consolidated Fund. This work confirmed that the systems in place for collecting VED through a range of channels, including Post Offices, Local Offices, Electronic Vehicle Licensing and Motor Manufacturers[3] are robust and have operated effectively throughout the year. No major control weaknesses were identified during the 2009-10 financial year.

## Improving compliance

18 As discussed in my report last year my predecessor noted in his Report on the 2007–08 VED Account that, under the policies operated by the Agency, people could renew their licences late to avoid paying a month's duty without the risk of penalty, known as 'month skipping'. In response to this problem, the Agency carried out a trial, in February 2009, in which it sent further reminders to the keepers of unlicensed vehicles, shortly after the expiry of the licence but before generating a late licensing penalty.

19 Owing to the success of the trial, with 28.7% of recipients returning to compliance, reminder letters have now been introduced as a permanent feature of the VED compliance strategy. The Agency is now also investigating the use of reminder letters specifically for vehicles which are observed on the road while declared as off road[4], in order to improve compliance within this category of evasion.

**Amyas CE Morse**
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SWIW 9SS
13 July 2010

[3] For full details of receipts by collecting channel see page 103 of the Annual Report and Accounts in this document.
[4] Where an owner has declared a vehicle as being kept off the road, the vehicle must be subject to a statutory off road notification (SORN)

## Accounts Direction given by HM Treasury in accordance with Section 4(6) (a) of the Government Trading Funds Act 1973 and with Section 2(1) of the Exchequer and Audit Departments Act 1921

1. The Driver and Vehicle Licensing Agency (DVLA) shall prepare a **Business Account** for the financial year ended 31 March 2006 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the edition of the *Government Financial Reporting Manual* issued by HM Treasury (FReM) which is in force for the relevant financial year.

2. The Business Account shall be prepared so as to give a true and fair view of the state of affairs as at 31 March 2006 and subsequent financial year-ends and of the income and expenditure, total recognised gains and losses and cash flows for the financial year then ended. The Business Account shall also be prepared so as 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.

3. 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.

4. DVLA shall prepare a **Vehicle Excise Duty Account** for the financial year ended 31 March 2006 and subsequent financial years which shall give a true and fair view of the state of affairs relating to the collection and settlement of Vehicle Excise Duty at 31 March 2006 and subsequent financial year-ends and of the revenue and expenditure and cash flows for the financial year then ended.

5. When preparing the Vehicle Excise Duty Account. DVLA shall have regard to the guidance given in the attached Appendix to this Direction. DVLA shall also agree the format of the supporting notes (including the accounting policies relating to revenue recognition, evasion and exemption) with HM Treasury. Regard shall also be given to all relevant accounting and disclosure requirements given in *Government Accounting* and other guidance as issued by HM Treasury, and the principles underlying UK Generally Accepted Accounting Practice.

6. Evasion is outside the scope of the Vehicle Excise Duty Accounts and shall not be included in the statement of revenue and expenditure, balance sheet, cash flow statement or notes. This fact should be disclosed in an accounting policy note with reference to the Management Commentary for further disclosure. The disclosures in the Management Commentary shall include discussion of the level of evasion in year.

7. Exemption is also outside the scope of the Vehicle Excise Duty Account. This fact should be disclosed in an accounting policy note, with reference to the notes to the Account for a discussion of the financial implications.

8. The Business Account, together with the Vehicle Excise Duty Account, shall be transmitted to the Comptroller and Auditor General for the purpose of his audit 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 set for the relevant year.

9. The Business Account and Vehicle Excise Duty Account, together with this direction, (but with the exception of the appendix), shall be laid before Parliament in one volume containing both financial statements and the Report produced by the Comptroller and Auditor General under section 2(2) of the Exchequer and Audit Departments Act 1921 as amended by the Government Resources and Accounts Act 2000.

10. This Direction supersedes the separate Directions for the Business Account issued under cover of Dear Accounting Officer letter (DAO (GEN) 01/06) on 16 January 2006 in so far as it refers to DVLA, and for the Vehicle Excise Duty Account issued on 23 February 2005.

**Ian Carruthers**
Director, Government Reporting, HM Treasury

# Appendix

## Commentary on Sustainability Performance

### Purpose

1. As part of its sustainable development strategy DVLA commenced disclosure of its environmental sustainability performance via the Annual Report and Accounts in 2008-09 reporting year. This reports on total finite resource consumption, green house gas emission and waste production and will provide a clear, current baseline for DVLA to measure its performance against.

It is worth noting that other reporting mechanisms present similar data, but look at different sections of the business. For example E-pims Property bench marking only looks at properties over 500m$^2$, Sustainable Development in Government reporting has previously shown office and non-office environments separately and omitted properties where partial data is available for commercial landlord properties. This report shows total available performance data for DVLA.

### Summary of performance

2.

| Area | Figure 2009-10 | Target Performance[1] 2009-10 |
|---|---|---|
| Carbon dioxide emissions from buildings | 17,236 tonnes | 15,500 tonnes |
| Carbon dioxide emissions from administrative road travel[2] | 579 tonnes | 790 tonnes |
| Carbon saving expenditure | £487,345 | |
| Total waste | 6333.8 tonnes[3] | Refurbishment waste not available 2008-09 |
| Office waste | 2195.85 tonnes | 1980 tonnes |
| Total general waste management expenditure | N/A[4] | |
| Water consumption | 54,967 m$^3$ | 55,000 m$^3$ |
| Water & Sewerage expenditure | £127,489 | |
| Buildings energy consumption | 51,964,145 KWh | 49,000,000 KWh |
| Total energy expenditure | £3,856,559 | |

[1] These targets were our internal stretch targets, as opposed to externally set ones, we set them to try drive performance and achieve our longer term goals.
[2] This includes all administrative road travel and excludes operational travel such as ANPR Vehicles.
[3] Waste includes refurbishment waste which was not available in 2008-09. Target performance was based on waste from offices.
[4] Waste revenue is part of the Agency PFI unitary charge and was not available in the timescale for this report.

## Industry/sector benchmarking

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

During the 2008/09 review, overall DVLA environmental sustainability performance was reported as 96% of our occupied space ahead of benchmark. The statement reported that:

*".... the environmental sustainability of your occupied office space is ahead of benchmark performance. The environmental sustainability score provides an objective indication of the performance and practices characterising benchmarked office space. The score measures the main "impacts" on environment (carbon dioxide, water and waste) as well as commitments shown to "better management"."*

Whilst we have continued reducing our overall water consumption and carbon emissions from business travel, the key area of environmental focus and development for DVLA, energy efficiency, did take a hit last year as a result of delayed projects arising from the uncertain financial position.

The 2008/09 review found energy performance to have reduced at 11 of the benchmarked properties with an overall 34% showing a reduction in energy consumption per $m^2$. However, DVLA's performance continues to be skewed by the high energy consumption in the HQ buildings in Swansea housing its industrial print and in-house data centre environments. Work to greater utilise a second on site CHP is progressing alongside relocation of IT equipment into our new data centres.

Revised targets and the introduction of CRC, SOGEII and an in year reduction target for carbon of 10% have refocused efforts to reduce carbon from the DVLA estate.

| Waste | | | 2007-08 | 2008-09 | 2009-10 | Target 2009-10 |
|---|---|---|---|---|---|---|
| Non-Financial Indicators (t) | Total waste (Minimum Requirement) | | **2444.6** | **2196.48** | **2195.85** | **1980** |
| | Hazardous Waste | Total | | **0.00** | **0.07** | **0.00** |
| | Non hazardous waste | Landfill | **926.32** | **646.68** | **610.67** | **380** |
| | | Reused/ Recycled | **1518.28** | **1549.8** | **1585.18** | **1600** |
| | | Incinerated /energy from waste | **0** | **0** | **0** | **0** |
| Financial Indicators (£k) | Total disposal cost (Minimum Requirement)<br>Waste revenue Receipt 07/08 £54,000<br>Waste revenue Receipt 08/09 £39,724<br>Waste revenue Receipt 08/09 £38,694 | | **135,919** | **168,327** | **N/A[5]** | |
| | Commentary | | | | | |
| | Cross Government targets to recycle waste arisings continue to be exceeded with DVLA recycling approximately 84% of its overall waste. In office waste only terms the recycling rate is currently at approximately 72%.<br><br>Hazardous waste arisings was asbestos removed from the HQ site which is now more granularly recorded than in previous years.<br><br>Waste management is being fully transferred into the DVLA PFI agreement. In addition DVLAs extension of its ISO14001 accreditation to its local office network has provided an opportunity to look at recycling smaller local recycling schemes around the country. | | | | | |

| Greenhouse Gas Emissions | | 2007-08 | 2008-09 | 2009-10 | Target 2009-10 |
|---|---|---|---|---|---|
| Non-Financial Indicators | Gross emissions from buildings | **14,576** | **17,019** | **17,236** | **15,500** |
| ($tCO_2e$) | Gross emissions attributable to official business travel - road miles only[6] | **750** | **840** | **579.45** | **790** |
| Financial Indicators (£k) | CRC Gross Expenditure (2011-12 onwards) | | | | |
| | Expenditure on accredited offsets (e.g. GCOF)[7] | **£0.00** | **£0.00** | **£0.00** | **£0.00** |
| | Expenditure on official business travel (road miles only) | **£1,182,359** | **£955,498** | **£659,375** | **N/A** |
| | Commentary | | | | |
| | Operation of DVLA's on site CHP provides a continued contribution to the reduction of carbon from DVLA's activities. DVLA has introduced a second CHP engine, but due to delays in projects and relocation of server capacity to DVLA data centres utilisation has not increased as planned resulting in DVLA not achieving its target.<br><br>The emissions from official business travel (road miles only) figure has reduced during 2009/10 due to a number of reasons:<br>- We have focussed on reducing travel during the year<br>- We have reviewed the processes in collating data, and now have an automated process which provides more accurate and granular data<br>- Because of this new methodology we are now able to calculate emissions at a greater level of detail e.g. we are able to separate our road data into fuel type and engine size this enables us to work out total Co2 using specific and relevant emissions factors. | | | | |

[5] Disposal costs form part of the PFI contract so are not readily available.
[6] Includes all official business road travel including ANPR vehicles.
[7] DVLA does not currently carry out any carbon offsetting.

| Finite Resource Consumption – Water | | | 2007-08 | 2008-09 | 2009-10 | Target 2009-10 |
|---|---|---|---|---|---|---|
| Non-Financial Indicators | Water Consumption ($M^3$) | Supplied | **74,805** | **60,070** | **54,967** | **55,000** |
| | | Harvested | **N/A** | **336** | **629.41** | **250** |
| Financial Indicators (£k) | Water & Sewerage Costs | | **197,289** | **190,250** | **127,489** | |

| | Commentary |
|---|---|
| | Work in 2008-09 positioned DVLA well to achieve its stretch target Focus was shifted to look at delivering a step change in energy performance over the next two years. Harvested water has outperformed expectations in A Block and Fforestfach. Leeds harvested water performance is not currently available.<br><br>Focus will need to be re-geared to deliver the SOGEII targets over the coming months. |

| Finite Resource Consumption – Energy | | | 2007-08 | 2008-09 | 2009-10 | Target 2009-10 |
|---|---|---|---|---|---|---|
| Non-Financial Indicators | Energy Consumption (KWh) | Electricity: Non-Green | **3,497,204** | **6,659,168** | **4,263,932** | **3,000,000** |
| | | Electricity: Green | **13,235,831** | **13,545,393** | **13,579,245** | **15,500,000** |
| | | Gas | **31,484,098** | **33,135,894** | **29,903,990** | **35,000,000** |
| | | LPG | **N/A** | **N/A** | **N/A** | **N/A** |
| | | Oil | **N/A** | **121,890** | **120,627** | **120,000** |
| Financial Indicators (£k) | Total Energy Expenditure | | **1,870,246** | **3,442,614** | **3,856,559** | **N/A** |

| | Commentary |
|---|---|
| | DVLA currently sources 38.8% of its electrical energy from Good Quality combined heat and power (CHP), with approximately 64% of this being self generated on its HQ on-site CHP system, surpassing the current 15% target for 2010. |

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| **Drivers enquiries** | **E-mail: www.direct.gov.uk/emaildvla**<br>**Telephone: 0300 790 6801 (national rate)**<br>**Fax: 0300 123 0784** |
| **Address:** | **Drivers Customer Services (DCS)**<br>**Correspondence Team DVLA Swansea SA6 7JL** |
| **Textphone:** | **for the deaf and hard of hearing**<br>**01792 766 366 (standard rate)** |
| **Vehicle enquiries** | **E-mail: www.direct.gov.uk/emaildvla**<br>**Telephone: 0300 790 6802 (national rate)**<br>**Fax: 0300 123 0798** |
| **Address:** | **Vehicle Customer Services (VCS)**<br>**DVLA Swansea SA99 1AR** |
| **Textphone:** | **for the deaf and hard of hearing**<br>**01792 766 366** (standard rate) |

**Premium Rate Services** **(Calls charged at 49 pence per minute)**

| | |
|---|---|
| **Date Vehicle First Registered:** | **0906 185 8585** |
| **Date of Liability:** | **0906 765 7585** |
| **Car hire companies:** | **09061 393837** |

**DVLA Personalised Registrations**

To check on the availability of DVLA Personalised Registrations please visit our website **www.dvlaregistrations.co.uk**

**Press enquiries** **Tel: 03001230791** or email **press.office@dvla.gsi.gov.uk**

**To call the Agency from abroad** **+ 44 1792 786369**

If you would like further information about this Annual Report & Accounts, please contact DVLA, Corporate Management Services, Swansea, SA6 7JL. Tel: 01792 782620 or email **businessplanning@dvla.gsi.gov.uk.**

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