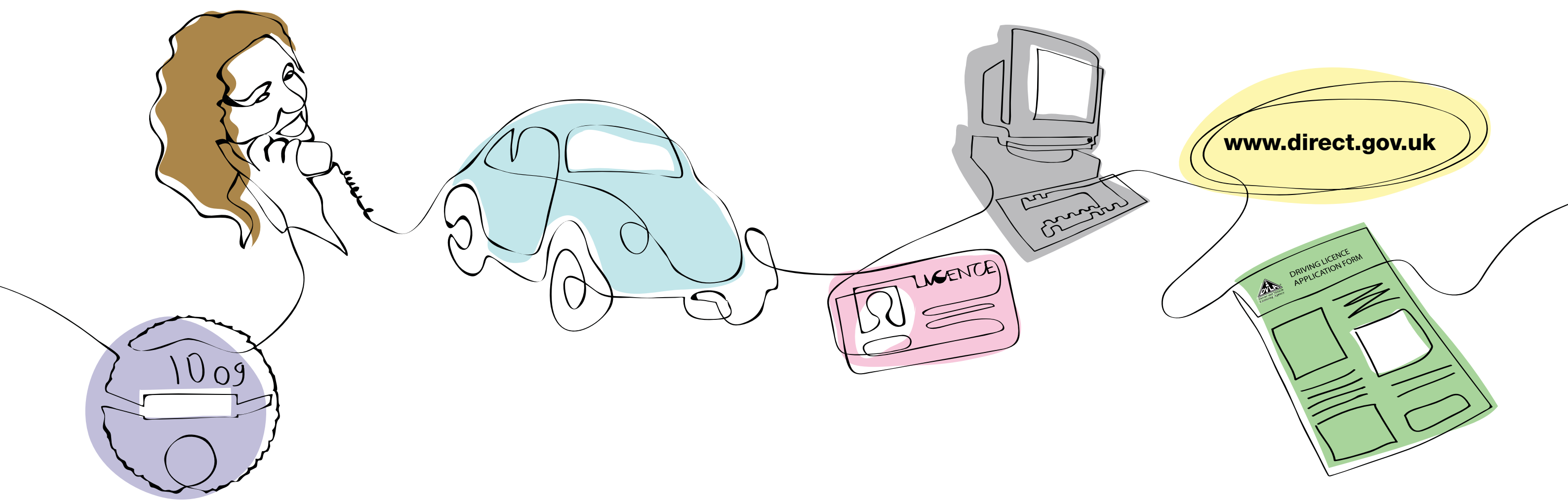
Driver and Vehicle Licensing Agency

Annual Report & Accounts
2008-2009



CUSTOMER SERVICE EXCELLENCE
The Government Standard

An executive agency of the Department for Transport

Driver and Vehicle Licensing Agency

Annual Report and Accounts 2008-09

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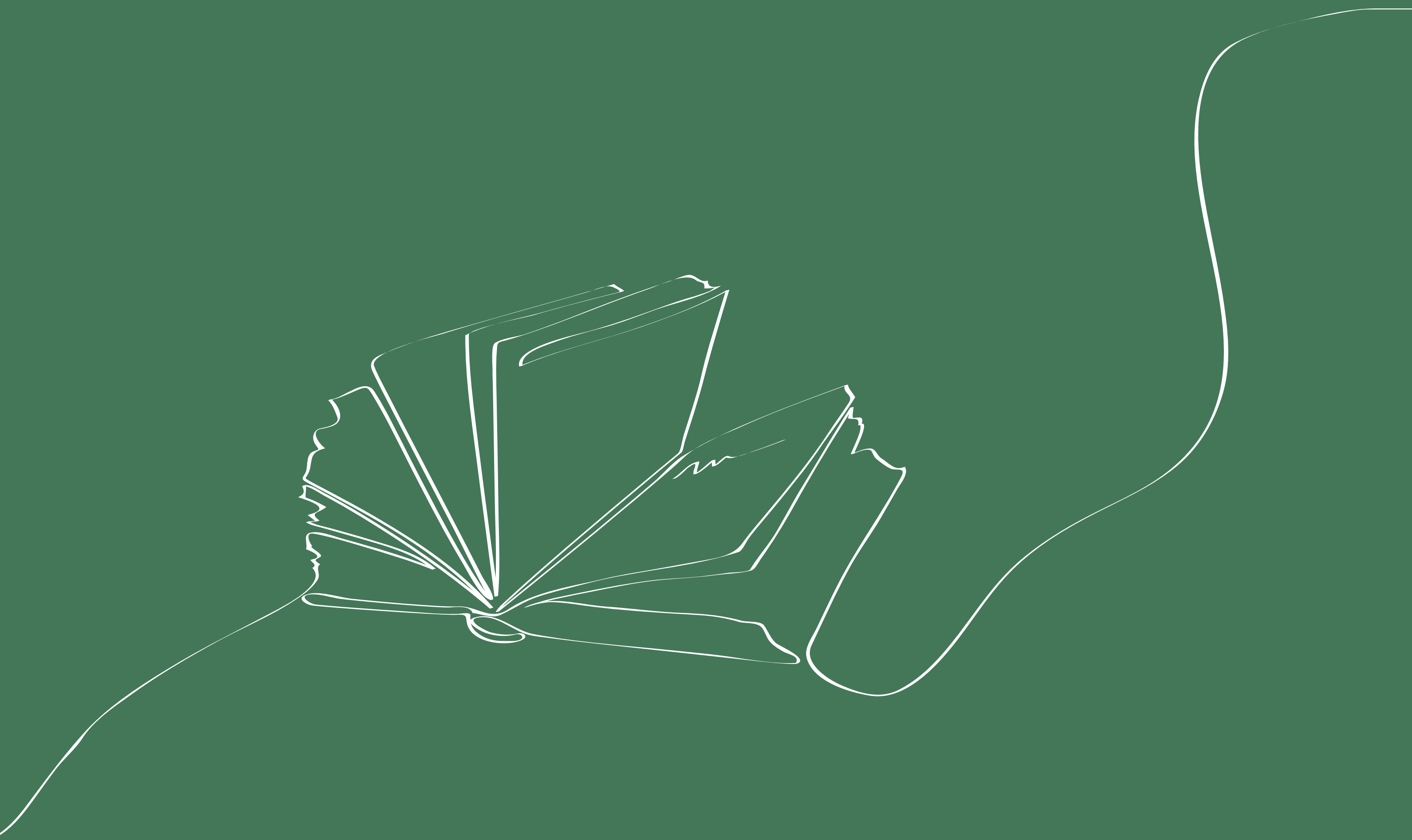

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Chief Executive's Foreword

The very positive attitude from DVLA staff during the last year helped to minimise the impact of the financial downturn and was key to the delivery of our best ever operational performance.

Like many other businesses, DVLA was heavily impacted during the last year by the economic downturn. We were tracking positively against the Business Plan up until August 2008, then First Vehicle Registrations dropped by 29.8% compared to August 2007. The consequent knock-on effect of reduced registration fee income in addition to lower volumes on other fee earning transactions, such as First Driving Licence applications, had a significant impact on DVLA income.

Noel Shanahan, DVLA Chief Executive

The drop in fee earning transaction volumes meant a £54.5m reduction in fee income compared to Business Plan projection. We therefore took rapid action in September 2008 to reduce operational and project costs, with the result of this work reducing the financial impact of the downturn on the Agency. This means that at year end we are reporting a deficit of £21.6m compared to a planned surplus of £4.7m.

However, this is only a part of the picture. Despite having to significantly reduce costs in order to minimise the deficit, DVLA produced its best ever set of performance results – the lowest ever Vehicle Excise Duty (VED) evasion rate (0.7% of vehicles in traffic), achievement of 7 out of 8 Secretary of State targets, all 18 customer service level targets met, 31.8% decrease in sickness absence levels, and delivery of key operational and legislative projects.

The Agency continues to lead the Government's Service Transformation Agenda with its electronic services for the public, winning more awards and recognition for innovation, service and delivery. Across Government, DVLA has provided updated links to the Police and Courts, helping them to become more efficient and provided card production facilities for the Driving Standards Agency (DSA) and the United Kingdom Border Agency (UKBA).

We undertake huge numbers of transactions – 110m a year. We keep significant volumes of data on 43m drivers and 34m vehicles records. Accuracy of these records is a key priority at DVLA and a programme of work to eliminate errors and drive up accuracy commenced during 2008: this focus and momentum will be an ongoing feature at DVLA.

The very positive attitude from DVLA staff during the last year helped to minimise the impact of the financial downturn and was key to the delivery of our best ever operational performance. This continued approach will help us to deliver a positive set of results in what looks certain to be another memorable year.

N.C. Shanahan

Noel Shanahan
DVLA Chief Executive

Highlights for the year

Financial Results

A deficit of £21.6m on its Income and Expenditure Account as opposed to the £4.7m surplus forecast in its Business Plan (see Summary of Accounts page 59).

1 D became DVLA's highest value registration number sold at auction, achieving a hammer price of £285,000.

Compliance

The Agency collected over £5.5 billion in VED (£5.3 billion in 2007-08).

VED evasion fell again, so that lost revenue fell from £79m to £50m (less than 1% of total due).

Ten Year Renewals – In June 2008, the Agency started to issue driving licences with updated photographs.

Customer Service

Buy your DVLA personalised registration online – On 9 October 2008, the Agency's Personalised Registrations website launched its new service to customers, (see page 31) for the first customers' experience of the service.

Win a Car – In 2008, DVLA launched one of the first incentive schemes ever seen in government – a ground-breaking sponsorship deal with SEAT, who have been giving away up to three cars a month in a prize draw for customers who used the Electronic Vehicle Licensing (EVL) or Statutory Off Road Notification (SORN) service.

Operational Results

Met or exceeded **7 out of 8** Secretary of State Targets.

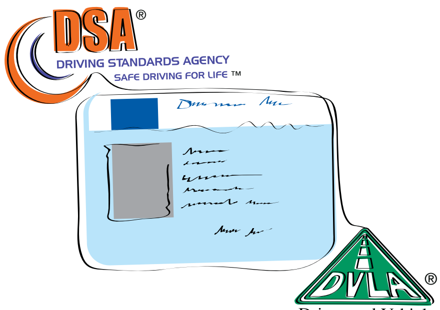
Met all **18 Customer Service Targets** – for the first time ever.

Processed over **16.2m** Vehicle Registration Certificates and **8.6m** Driver Licences.

Partnership Working

Certificate of Professional Competence

In September 2008 the Agency started the issue of the Driver Qualification Card (DQC) on behalf of the DSA.

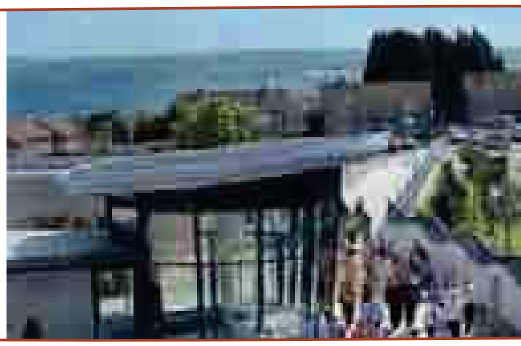


Working with DSA

Efficiency

Sick Absence

The Agency's sick absence level for 2008-09 was 8.97 days against a target of 11.2 (previous year result of 13.2 days) a reduction of 31.8%. This performance surpassed the target and reflects the effort made by all staff to reduce sick absence.



Collecting the National Business award

Awards & Accreditation

A night at the OSCARS

The National Business Awards are the most prestigious business awards in the UK and have been referred to by the Prime Minister as the Business Oscars. The ceremony was hosted by journalist Andrew Marr at the Grosvenor House Hotel in London, in front of an audience of over 1,200 people. The award was one of 17 given on the night in the company of Lord Peter Mandelson and HRH Prince Edward, Earl of Wessex.

DVLA's groundbreaking prize draw initiative, which has seen fantastic results so far, contributed to the Agency's success. 'It was a unanimous decision from the judges', beating off stiff competition from nine of the biggest spenders in advertising.

The judges look for innovation and a clearly expressed and articulated objective led campaign strategy, leading to measurable and verifiable business results. The judges were so impressed with DVLA's outlook and work that the Agency has been asked to take part in a documentary to be shown on the National Business Awards website at **www.nationalbusinessawards.co.uk**

European Business Awards 2009 – against strong competition from several multi-national companies, and in recognition of its EVL incentives campaign, DVLA was presented with the Ruban d'Honneur award and were overall winners of the European Marketing Strategy of Year 2009 award at the European Business Awards. For further information visit **www.businessawardseurope.com**

Electronic Vehicle Licensing

DVLA proudly took home the Bigmouthmedia Best Marketing Strategy 2008 at the National Business Awards for its EVL marketing campaign.

DVLA Contact Centre

The Contact Centre reached the Global Standard© (Version 3) certification level in 2007. This award is accreditated by the Customer Contact Association.

DVLA's Contact Centre Training team

The journey to re-accreditation started with a gap analysis against a range of accreditation criteria within the five key areas – customer focus, performance, recruitment, learning and development and legislation. In 2008 the Contact Centre was re-accredited against the more challenging Version 4 of the Standard©, which added two further key areas – security and fraud prevention and implementing and managing telecoms technology.

The work on accreditation is supported by a network of Change and Improvement Advocates (CIAs) from every team in the Contact Centre. The CIAs contribute to workshops and channel ideas and communication to and from their team.

The Contact Centre Training Team has been successful in winning the Welsh Contact Centre Forum Awards 2008 in the Company category Support Team of the Year.

In October 2008, the Contact Centre celebrated wins in three categories at the National Training Awards 2008.

PWC Building Public Trust Awards

Public sector reporting – DVLA's Annual Report & Accounts 2007-08 was highly commended in the PricewaterhouseCoopers (PWC) Building Public Trust Awards 2008 in the category, "Telling It How It Is in the public sector". This is a prestigious award run by PWC in association with the National Audit Office. The awards celebrate the commitment of the UK's largest corporations and public sector bodies, to build trust through their communication of the key building blocks of sustainable performance.

DVLA was one of three short-listed (the fourth time in 5 years) from 130 public sector organisations. The commendation recognises the Agency as one of the leading organisations, demonstrating transparency in public reporting.

"An honest and open Annual Report & Accounts".

PWC judging panel

Prince's Trust

The Agency was represented at The Prince's Trust and Royal Bank of Scotland Celebrate Success Awards (2009) in March.
In recognition of our contribution to the Prince's Trust charity we received the UK Finalist Partnership Innovation Award.
The Agency also won the UK Finalist Partnership Innovation Award (Wales) at a presentation in Cardiff in October 2008.

As recognition of increased security at DVLA

The Agency gained ISO27001 accreditation for its Information Security Management Systems under the British Standards Institute, for its print and mailing facility in Swansea.

This accreditation demonstrates the Agency's focus on increased security around data information, confidentiality, integrity and availability of information assets, demonstrating to our customers that the security of their information is paramount. In addition, these systems help protect DVLA's information and assets from a wide range of threats to ensure business continuity, manage risk and maximise opportunities.

Cross Government Working

The Agency's Driver Verification Service (DVS) was amongst 68 finalists nominated for an e-Government National Award. These awards are given to UK central government departments whose effective services improve citizen and business transactions with other public sector organisations. DVLA won the Team-working Category for the successful roll-out of DVS to Magistrates Courts in England and Wales. DVS provides approved public sector organisations with direct 24/7 access to DVLA's 43m driver records. This self-service solution is free and uses secure government networks.

The roll-out was completed on time and with minimum disruption to both organisations. This was seen as an excellent example of cross-Agency working between DVLA and Her Majesty's Court Service (HMCS).

Customer Service Excellence

The Agency has achieved the Customer Service Excellence (CSE) standard. The award aims to make public services more customer focused. The standard is awarded to those that meet the strict criteria for excellence, with a focus on delivery, timeliness, information, professionalism and staff attitude. DVLA is the largest organisation to have achieved accreditation for the whole of its business since CSE was launched on 10 March 2008.

Customer Service Excellence award

"The lasting impression is of a service that is proud of its considerable achievements but committed to continuous improvement based upon the needs of customers"
CSE assessor

CUSTOMER SERVICE EXCELLENCE UK

The Government Standard

Impact on the motor industry

The Economic Climate

The impact of the economic downturn on the motor industry has reduced income to the Agency. As a result of this, a number of projects and initiatives planned for 2008-09 have been deferred. For more information see the Management Commentary (page 39) and the Summary of Accounts (page 59).

As a result of the economic downturn the Agency took the decision to defer:

- a pilot for the production of Chip and PIN smartcards for Driver Licence Checking services
- a pilot for the introduction of Facial Recognition to increase automation, and
- development of initial proposals for re-engineering the strategy for the Vehicles Register.

Driver and Vehicle Agency (DVA) Northern Ireland

The timing for delivery of the vehicles system integration project has been reviewed to take into account the significant changes to VED announced in the March 2008 budget and the introduction of Continuous Insurance Enforcement (CIE). The aim is that services for customers in Northern Ireland should be brought into line with those electronic services already provided in Great Britain. The approach to deliver this as quickly and cost-effectively as possible will be developed in the coming months.

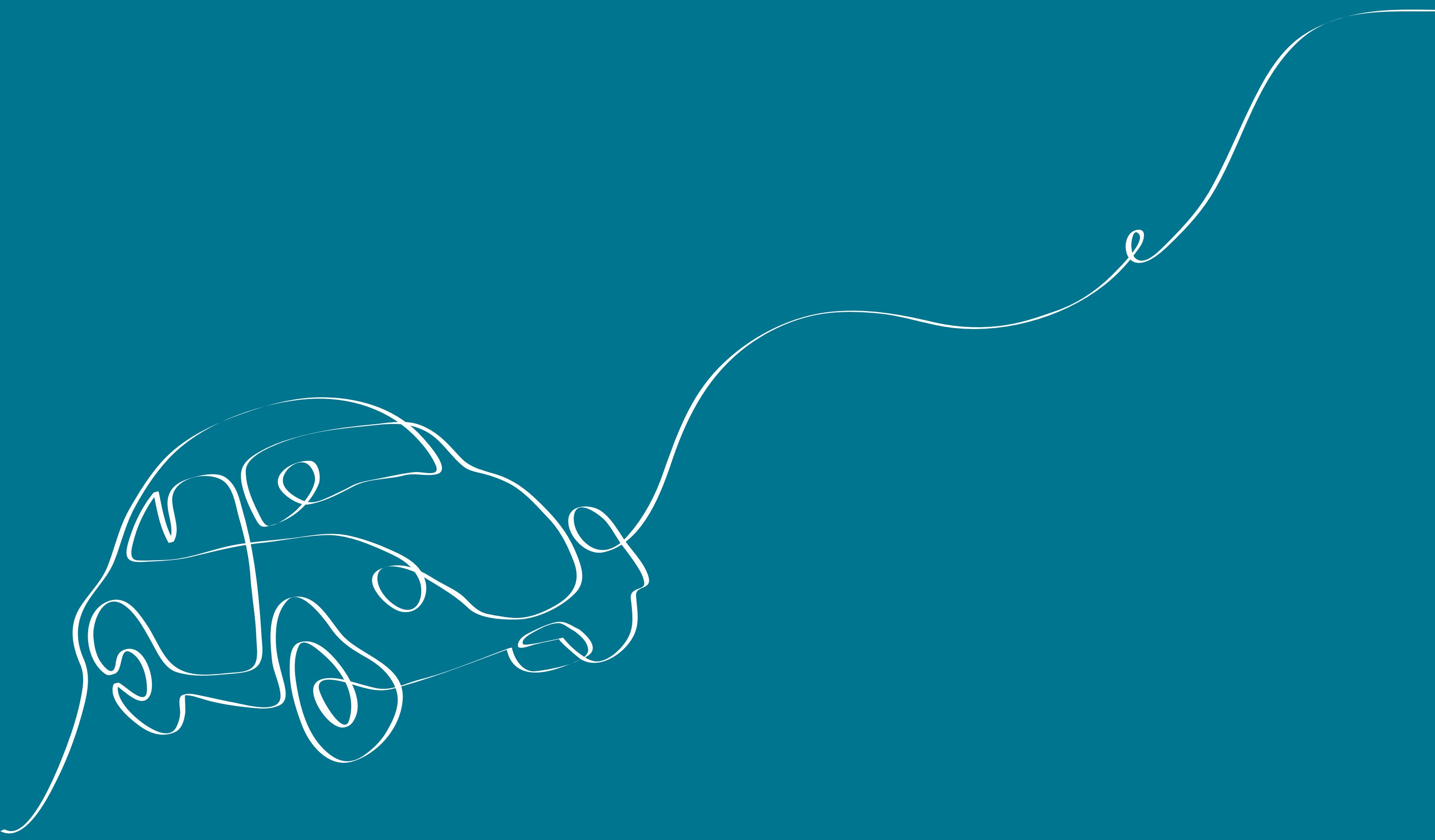
Things we could have done better

Customer satisfaction – Results of the 2008 customer satisfaction survey showed that while satisfaction for private motorists was 92.3%, the satisfaction level of commercial customers was 84.7 % against a target of 90%.

The Agency has implemented a more sound and robust methodology for accurately measuring commercial customer feedback as the process used in 2008-09 was severely distorted by a very small number of customers.

In June and October 2009, the Agency will undertake an exercise targeting 300 commercial customers. This will identify any areas of dissatisfaction and implement an action plan to improve the services offered to our customers.

Efficiency – Public Sector Prompt Payment (PSPP) – DVLA missed its PSPP target of 98% payment within 30 days, achieving a result for the year of 97.36%. The Agency exceeded the target for 6 months of the year but the bedding in of new processes following the move of our transactions into the new Shared Service Centre (SSC) meant that the target was missed in the earlier months. DVLA operated in excess of 94% every month and by March 2009, was once again achieving in excess of 98%.



Director's report

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

Introduction

DVLA is an Executive Agency and Trading Fund of the Department for Transport (DfT) and is the largest agency sponsored by the Motoring and Freight Services Group (MFS) (formerly the Safety, Service Delivery and Logistics Group).

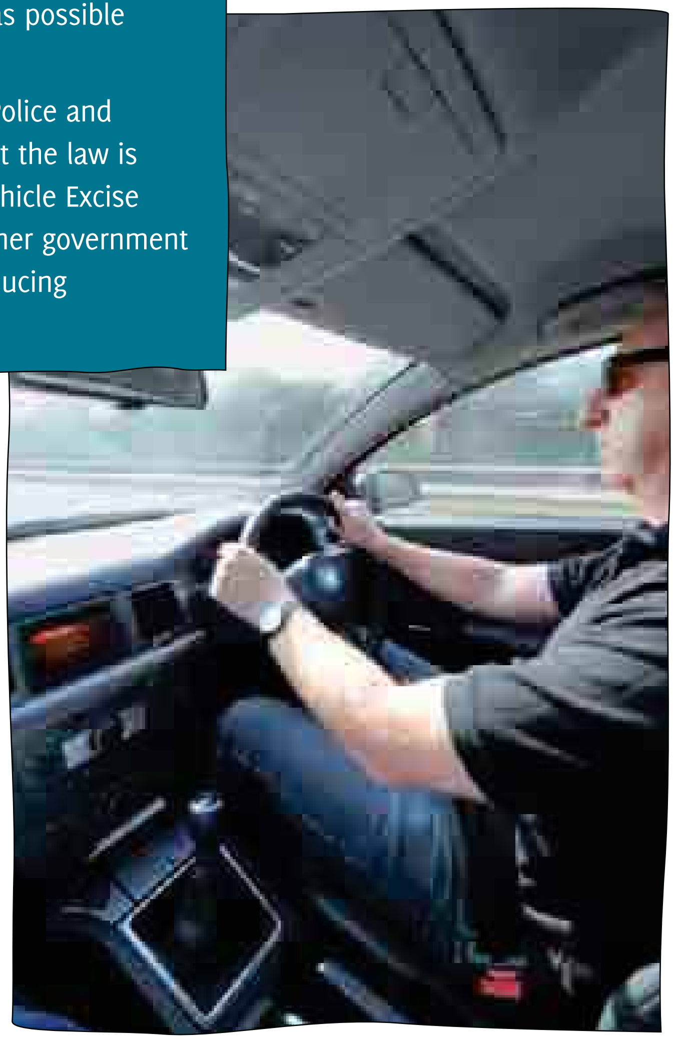
Our vision is to be:

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

Our key purpose is to:

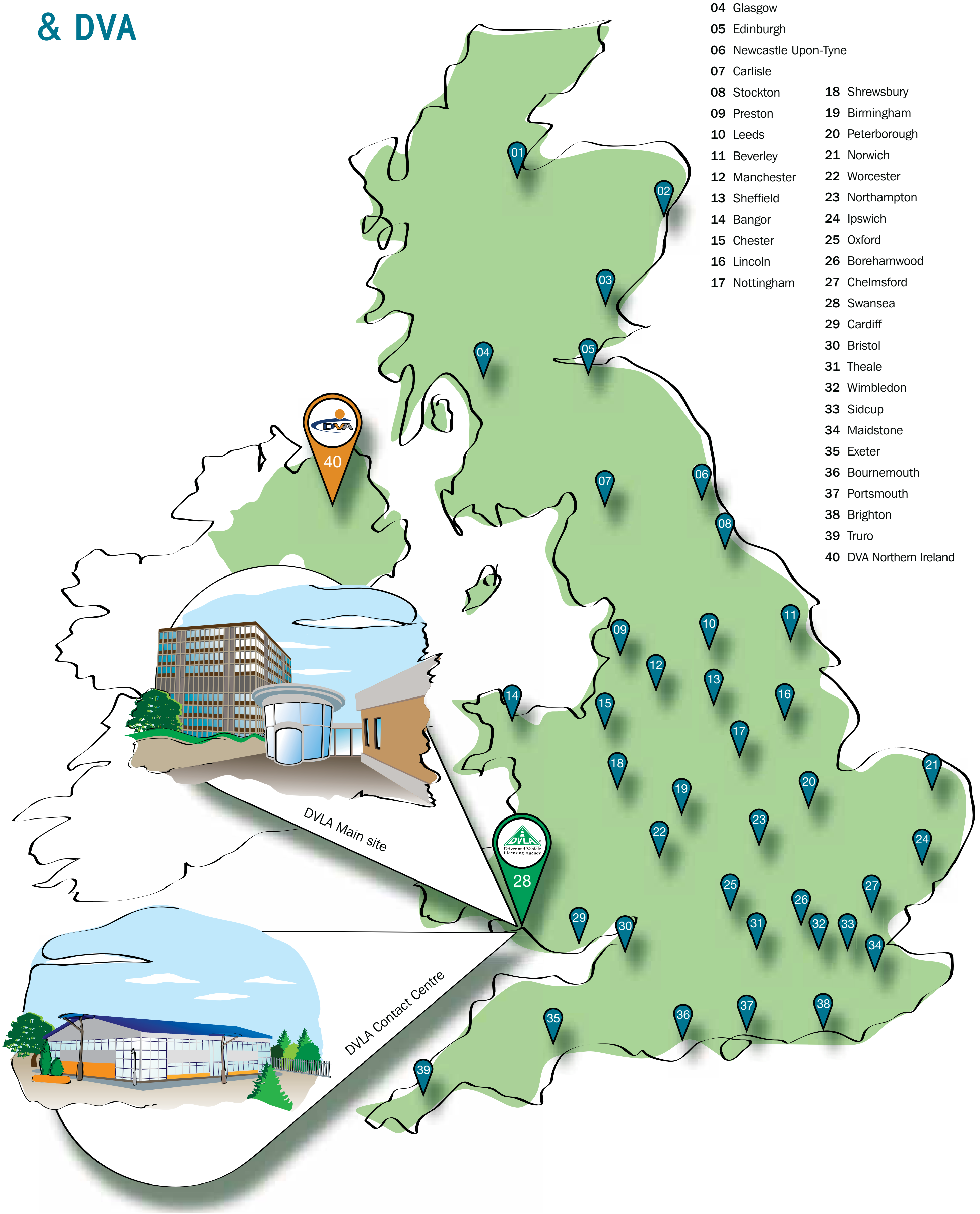
keep complete, accurate registers of drivers and vehicles, and make them as accessible and as flexible as possible to those who have the rights to use them.

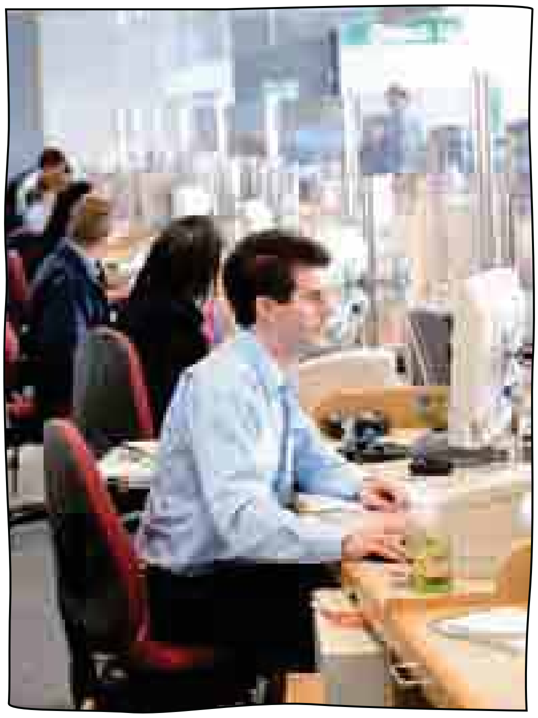
These registers underpin action by DVLA, the Police and others to keep road users safe and ensure that the law is respected and observed; allow us to collect Vehicle Excise Duty effectively, and can be used to deliver other government initiatives such as traffic management and reducing carbon emissions.



DVLA Local Services Network, Area Enforcement Centres & DVA

01 Inverness
02 Aberdeen
03 Dundee
04 Glasgow
05 Edinburgh
06 Newcastle Upon-Tyne
07 Carlisle
08 Stockton
09 Preston
10 Leeds
11 Beverley
12 Manchester
13 Sheffield
14 Bangor
15 Chester
16 Lincoln
17 Nottingham
18 Shrewsbury
19 Birmingham
20 Peterborough
21 Norwich
22 Worcester
23 Northampton
24 Ipswich
25 Oxford
26 Borehamwood
27 Chelmsford
28 Swansea
29 Cardiff
30 Bristol
31 Theale
32 Wimbledon
33 Sidcup
34 Maidstone
35 Exeter
36 Bournemouth
37 Portsmouth
38 Brighton
39 Truro
40 DVA Northern Ireland





Local Service Network staff

Our Staff

At 31 March 2009 the Agency employed 5,690 Full Time Equivalent (FTE) staff (compared to 5,916 FTEs at 1 April 2008) and hosting the DfT SSC employed a further 285 FTEs (up from 250 FTEs at 1 April 2008). The majority of staff are based in Swansea, however the Agency has 39 local offices and over 1,500 staff work for the Local Services and Enforcement Network.

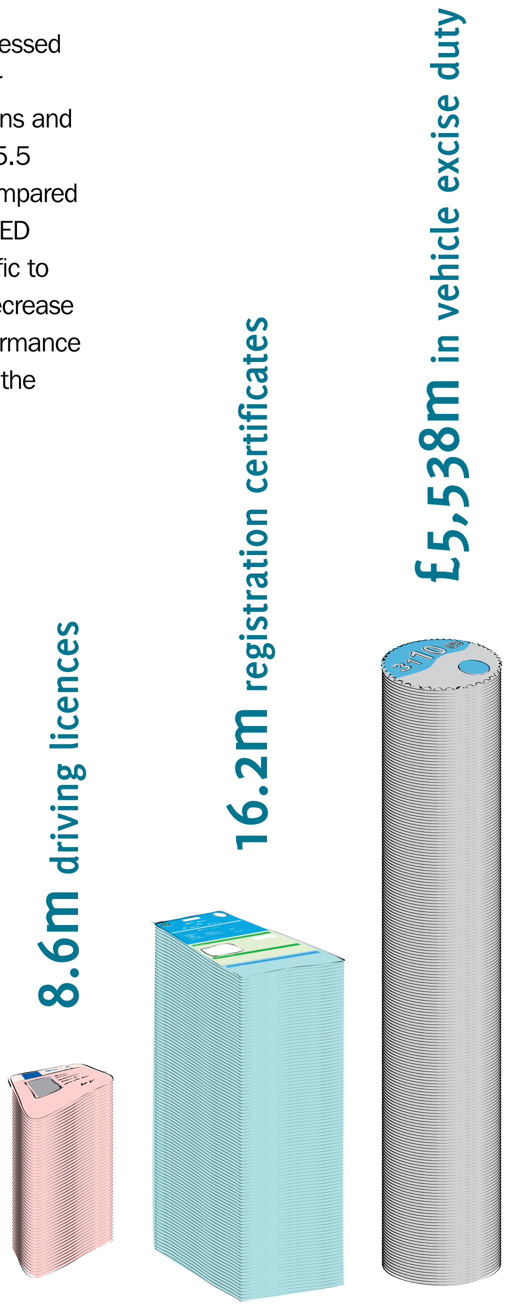
Our Business

During 2008-09 we issued 8.6m driver licences, 16.2m registration certificates, answered over 17m calls from customers (14.7m by call handlers and 2.3m by our automated voice handling system). In addition the Agency handled over 42,000 enquiries from the police.

The Agency processed 45m licensing or SORN transactions and collected over £5.5 billion in VED compared to £5.3 billion in 2007-08. VED evasion fell from 1.1% in traffic to 0.7% – another significant decrease and confirmation of the performance of the enforcement efforts of the Agency.

DVLA has one of the most successful wider markets initiatives in Government in its personalised registrations scheme. In 2008-09 the Agency sold over 234,334 personalised registration numbers and collected over £80m (excluding Assignment fees) – now significantly over £1 billion for HM Treasury since the scheme began.

The Agency is also responsible for vehicle registration, re-licensing applications and enforcement of VED in DVA.



Our Strategic Objectives for 2008-09

1. Ensure that the completeness, accuracy and accessibility of records satisfies customers and stakeholders (see page 23).
2. Achieve target VED compliance levels and deliver Personalised Registration income to meet the target contribution to the public purse (see pages 24-27).
3. Ensure customers receive a level of service and choice of channels that meet expectations and encourage compliance with legal obligations (see page 28).
4. Become more productive by working effectively with more agility by taking advantage of technological advances and improved processes and driving out waste and delay (see pages 29-32).
5. Ensure that legislation and processes work efficiently and effectively when enforced for compliance and establish entitlement (see page 33).
6. Develop the flexibility and capabilities of people and organisation in a way that makes the Agency more productive and provide a faster response to changing needs of stakeholders (see page 34-36).
7. Work with other organisations across Government to share resources and capabilities, and to reduce the overall burden on the public purse and the environment (see page 37).

DVLA Business Plan 2008-09

Our Plans and Reports

This Annual Report and Accounts should be read in conjunction with the *DVLA Business Plan 2008-09*. The Plan sets out what we aimed to achieve during the year in order to meet our strategic objectives. The Directors' Report details our performance against targets and provides a detailed account of how we delivered against our strategic objectives. For further information on DVLA (including our corporate documents) visit **www.dvla.gov.uk/publications**

Risk

During 2008-09 the DVLA continued to assess and evaluate risk across the business. In addition, the Agency has started the process of aligning the Corporate Risk Management and Business Continuity systems with latest industry standards (BS 31100 and BS 25999).

For more information on DVLA Risk Management see Statement on Internal Control page 60.

Our Contribution to Sustainable Development

The UK Government Sustainable Development (SD) Strategy, Securing the Future (March 2005) set out a common SD goal agreed by Government.

> "To enable all people throughout the world to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life for future generations."

This identifies four priorities for immediate focus and action, against which, departments and executive agencies are to assess the impacts of their activities and actions:

- sustainable consumption and production
- natural resource protection and environmental enhancement
- from local to global: building sustainable communities
- climate change and energy.

Careful consideration and focus is given when writing our SD Action Plans (SDAP), which concentrates on managing our operations in a sustainable way.

Due to the nature of our administrative processes and our status as an executive agency and Trading Fund, opportunities to bring a significant positive impact on the four key priorities are limited.

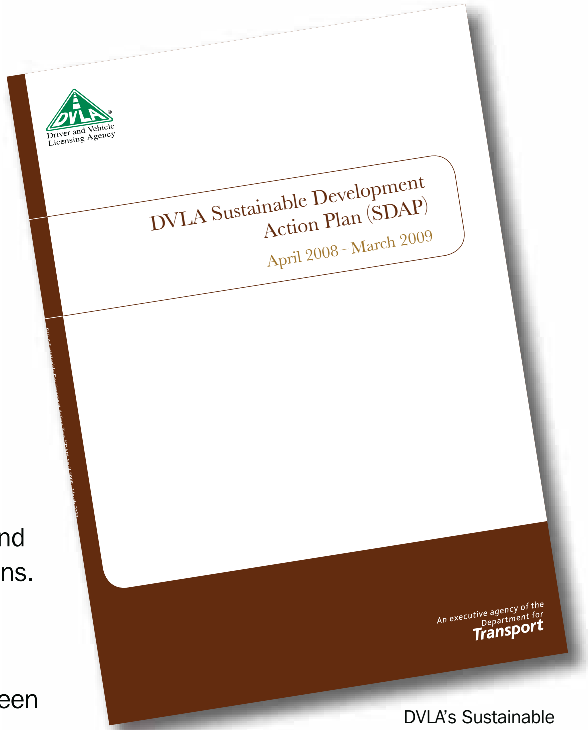
The table shown opposite displays some of the changes we have made to our operations and their impact on the four priorities.

The momentum and enthusiasm realised across the Agency during 2008 - 09 provided us with a new boost to embedding SD.

The newly formed SD Forum has helped this process immensely, allowing for greater engagement and in-depth discussion with each Directorate about aligning SD thinking into strategies, action plans and everyday planning decisions.

We achieved 7 out of 11 targets set in our SDAP. Significant progress has been made on the four remaining actions and there are firm commitments to deliver them during 2009-10.

Details of our 2008-09 environmental sustainability performance are included in the Appendix (page 123) of this report.



DVLA's Sustainable Development Action Plan

2008-2009 Sustainable Development Actions

SD Priority	*Sustainable consumption and production*	*Natural resource protection and environmental enhancement*	*From local to global: building sustainable communities*	*Climate change and energy*	*Impact (1 – zero /2 – fair / 3 – good /4 - outstanding)*	*Status of Target at end of March 2009*
To develop and implement a programme to reduce CO_2 to target	✓	✓		✓	2	Forwarded to 2009-10 SDAP
Energy Performance Certificates to be completed for each building		✓		✓	4	Complete
Review the current Transport Policy	✓	✓	✓	✓	3	Complete
Review the current Travel Plan	✓	✓	✓	✓	3	Forwarded to 2009-10 SDAP
Develop and implement a waste minimisation programme	✓	✓	✓	✓	2	Forwarded to 2009-10 SDAP
Double sided printing to be set up as default on ALL printers and PC software	✓			✓	3	Forwarded to 2009-10 SDAP
Implement our new water programme across the estate		✓		✓	2	Complete
Review role requirement and appoint a sustainable development Programme & Project Manager	✓	✓	✓	✓	3	Complete
Implementing sustainable procurement training within Central Procurement Group, Estates Management Group and Programmes & Projects Management	✓	✓	✓	✓	3	Complete
Maintain at 70% DVLA's purchase of items listed on the OGC Quick Wins list	✓	✓	✓	✓	3	Complete

Performance against Targets

Secretary of State targets 2008-09

Better compliance to improve road safety

	Target 2008-09	2008-09	2007-08	Longer Term
1	*Accuracy (traceability)* Increase the accuracy of the vehicle register by: • being able to trace registered keepers from the record in 95% of cases	**Achieved** **95.7%**	96.9%	To keep accuracy above 95%.
2	*Collecting Tax for the Government* Collect around £5 billion of VED and through enforcement action collect £30m	**Achieved** **£5.5 billion** **£52m**	£5.3 billion n/a	Collect agreed amount of revenue through VED enforcement action by a total £100m over period 2008-11

Transforming customer service

	Target 2008-09	2008-09	2007-08	Longer Term
3	*Customer Satisfaction for Service Delivery:* Maintain or improve customer satisfaction to 90% for: • Private Motorists • Commercial Customers	Not Achieved **92.3%** **84.7%**	93%	Achieve/improve on 90%
4	*Service Delivery to Customers* Maintain or improve on standard of services to the customer – achieve at least 16 out of 18 customer service measures on page 21	**Achieved** **18 out of 18**	12 out of 18 met	Move to measures that more closely reflect customer experience and expectation

Improved efficiency and capability

	Target 2008-09	2008-09	2007-08	Longer Term
5	*Value for Money* By restraining transaction unit costs and through other initiatives deliver financial savings of £19.5m	**Achieved** **£19.5m**	Achieved	Over the period 2008-11 deliver £80.7m savings
6	*Channel Shift* Increase customer take-up of electronic transaction channels by March 2009 to 42%	**Exceeded** **47%**	47.3%	Make continuous improvement
7	*Sick absence* Reduce average number of days absence for 2008-09 to 11.2	**Exceeded** **8.97 days**	12 days	Make continuous improvement

Contributing to wider government objectives

	Target 2008-09	2008-09	2007-08	Longer Term
8	*Cross-Government Efficiency* Launch 24/7 electronic access to vehicle and driver details for approved enquiries by Police Force or Court partners from September 2008	**Achieved** **September 2008**	n/a	Support enforcement agency (e.g. Police and Vehicle and Operator Standards Agency) access to data when and where needed

Standards of Customer Service Measures 2008-09

	Target 2008-09	Performance 2008-09	Performance 2007-08
Driving Licences			
To deliver a 1st driving licence within 8 working days	98%	**99.9%**	98.0%
To deliver a vocational licence within 8 working days	98%	**99.5%**	99.8%
To deliver an ordinary licence within 10 working days	97%	**99.8%**	99.6%
Medical Investigations			
To conclude a simple case within 15 working days	88%	**95.7%**	92.2%
To conclude a complex case (those that require further medical investigation) within 90 working days	85%	**92.6%**	84.3%
Vehicle Registration Document			
To deliver a 1st registration document, excluding cherished transfers, within 14 working days	95%	**100%**	99.8%
To deliver a change on a registration certificate within 14 working days	95%	**99.3%**	98.2%
To deliver a registration document from an application (notifying changes to the registration certificate) within 30 working days	95%	**99.4%**	99.6%
Vehicle Excise Duty refunds			
To deliver a refund due within 30 working days	95%	**98.6%**	98.9%
Customer response			
To answer call demand	95%	**97%**	97.6%
To deliver quality service in the Contact Centre	85%	**89.6%**	68.2%
To answer e-mails within 3 working days	95%	**100%**	99.2%
Keep average local office queuing time for 98% of customers to no more than 15 minutes	98%	**10min 22secs**	13min 54secs
To deliver a cherished transfer within 7 working days	95%	**99.6%**	95.1%
Customer complaints			
To acknowledge a complaint within 1 working day	98%	**100%**	100%
To maintain or improve on last year's performance, which is measured as % of complaints provided with a substantive response within 10 working days	95.8%	**99.2%**	96.2%
MP correspondence			
To acknowledge correspondence within 1 working day	98%	**100%**	100%
To maintain or improve on last year's performance, which is measured as % of complaints provided with a substantive response in 7 working days	94.2%	**99%**	94.4%

Notes to measures table:

1. Measured in working days from receipt by DVLA to receipt by the customer.
2. Response times reflect complexity of complaints.
3. Quality of service in the Contact Centre is measured by an external Mystery Shopper.

Change Programme 2008-09

	Milestone date	Performance 2008-09
Delivery programme		
DVLA Personalised Registrations Available to purchase online in addition to checking availability.	October 2008	**Achieved October 2008**
Ten Year Renewal Commence the renewal cycle for ten year photocard driving licences (the first reminders were sent out in May 2008).	July 2008	**Achieved July 2008**
Certificate of Professional Competence (CPC) Delivery of CPC register and card production on behalf of the Driving Standards Agency.	September 2008	**Achieved September 2008**
Card Production (Biometric Residency Permits) Production of Biometric Residency Cards for the UKBA on a shared services basis.	December 2008	**Achieved November 2008**
Vehicle Integration Northern Ireland Preparations will continue for data from the DVA vehicles database to be migrated to the DVLA vehicles database, creating a single UK-wide Vehicles Register.	March 2009	Under re-evaluation (see page 13)
Strategy & Feasibility programme		
Develop the outline business case for CIE and commence preparation of full business case.	2008-09	**Achieved**
Undertake a pilot study for the production of Smartcard Driver Licences.	2008-09	See Note*
Complete pilot for Facial Recognition.	2008-09	See Note*
Define and initiate project to replace functions within the drivers system to complement the new functions delivered through Drivers Re-engineering Project.	2008-09	**Achieved**
Evaluate options and develop implementation plan for EC 3rd Directive.	2008-09	**Achieved**
Develop initial proposals for re-engineering the strategy for the Vehicles Register.	2008-09	See Note*
Infrastructure programme		
Provide the capability to enable larger organisations to send high volumes of enquiries securely, resulting in increased levels of data accuracy and an improved service to core customers.	2008-09	**Achieved**
Deliver further secure and reusable services to support the Agency's business-to-business links.	2008-09	**Achieved**

*Note: Suspended during 2008-09.

Performance against Strategic Objectives

1 Accuracy

Ensure that the completeness, accuracy and accessibility of our records satisfies customers and stakeholders.

Better compliance to improve road safety

Increase the accuracy of the vehicle register by being able to trace registered keepers from the record in 95% of cases.

Pilot

Pilot studies were introduced in our Contact Centre and Local Services Network (LSN). These pilots use direct customer contact to check the driver and/or vehicle databases and prompt compliance where an out of date address is detected. For the Contact Centre it also includes trialling updating driver customer's records from telephone calls where business rules allow.

The Agency's 2008 Accuracy Survey showed that 95.7% of vehicle keepers could be traced from the vehicle register.

In 2008, the Agency established an Accuracy Team to increase our focus on and bring together improvements to the accuracy of the driver and vehicle registers. During 2008-09 the team worked to establish:

- Where and how inaccurate records cause problems
- The scale of the problem
- How to measure the impact
- Where to focus effort to improve accuracy.

Based on the findings of a range of accuracy pilots conducted across the Agency, third party database address matching and our Annual Traceability scores from the 2007-08 national surveys, work was carried out on ensuring that addresses held on both the Agency's Driver and Vehicle databases were up to date.

In addition to this, a study to investigate the feasibility of a single change of address notification facility on DVLA forms and an automated solution to link both our Driver and Vehicle databases was carried out. This will enable a single entry update to both records.

To help assess the scale of potential accuracy opportunities we have introduced a number of measurements.

- Accuracy as root cause analysis of calls into our Contact Centre.
- Accuracy as root cause analysis of casework and complaints in our Central Operations.
- A single, internal, input accuracy checking framework.
- A detailed survey of our key stakeholders to understand their precise experience of DVLA data, their precise needs and their priorities for improvement activity.

Accuracy team

Photocard driving licence

Better compliance to improve road safety

Collect around £5 billion of VED and through enforcement action collect £30m.

2 Compliance

Achieve target Vehicle Excise Duty compliance levels and deliver Personalised Registration income to meet the target contribution to the public purse.

Driving Licence Fees

The public consultation for Driving Licence Fees ended on 23 January 2009. Ministers agreed to an increase in the common fee level for the transactions listed below from £17.50 to £20, in line with the preferred option in the consultation. The regulations were introduced and took effect from 6 April 2009. The fees affected are:

- provision of a duplicate for a lost, stolen or destroyed driving licence
- the provision of a vanity exchange - only the photograph is changed on the licence
- exchange of a driving licence for removal of endorsements
- processing the ten-yearly renewal of the photograph on the driving licence
- exchanging a paper licence for a photocard licence.

Budget Changes

The Budget speech in March 2008 announced a major structural reform of VED. These changes are aimed at providing an incentive to purchase fuel efficient cars by attracting a lower rate of duty.

The Agency successfully introduced the new 13 band Graduated VED structure for all licences purchased from 1 May 2009.

Work continues to facilitate the introduction of higher first year rates of VED from 1 April 2010.

The new structure and rates are available on www.direct.gov.uk/en/Motoring/OwningAVehicle/HowToTaxYourVehicle/DG_10012524

Ten Year Renewals

In June 2008 the DVLA successfully issued the first ten year photograph update driving licence.

The renewal process is a new transaction for the Agency and we have had to prepare the people, systems and processes to support the 25 million photographs that will expire over the next ten years. This has required a significant amount of effort from across the business and service partners.

TYR application forms

Check and send available at 750 Post Offices®

Post Office Ltd

In January 2009, DVLA signed a contract extension into the current Check and Send service with the Post Office®. This will include the capability to check the photograph at the counter. This will initially be used to enable the ten year renewal transactions to be carried out through the network of 750 Post Offices® currently providing the original service.

This is how we did it...

"Introducing Ten Year Renewals required careful interpretation of the legislation introduced in 1998. This ensured that stakeholders and drivers could be informed of the impact of Ten Year Renewals. The renewal fee was subject to public consultation before coming into force in May 2008.

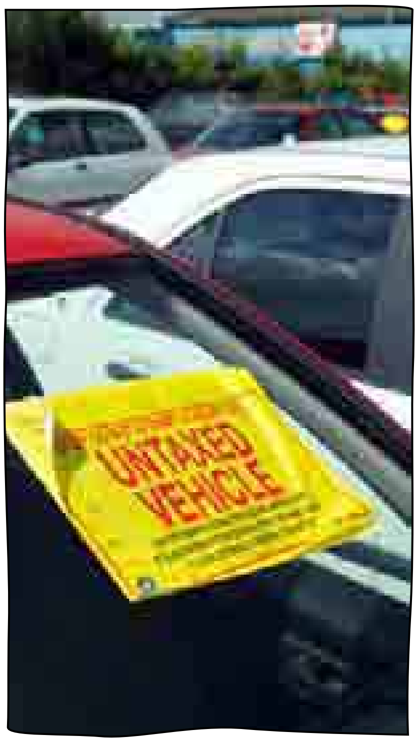
Regular stakeholder meetings were held between business representatives and DVLA. This ensured the business and other stakeholders were aware of developments and were able to provide input and feedback and raise concerns.

There was little awareness of photo expiry and its impact on drivers and the stakeholder community. Clear communications and proactive engagement delivered concise and accurate information to raise awareness with the stakeholder community.

New forms and information leaflets were developed to allow drivers to apply for the photo renewals with the emphasis on improving these to make it easier for the customer to understand and comply.

The final step in the process is the despatch of the driving licence with its updated photograph. Whilst initial volumes are relatively limited, by mid 2010 around 200,000 photos will expire every month".

DVLA Ten Year Renewal Project Team.



Wheelclamped vehicle

Enforcement

During 2008-09 the Agency collected £52m (target £30m) of VED through enforcement activities.

Continuous Registration (CR) – A total of 1.1m CR cases were undertaken during the year yielding £34m in fine income.

Wheelclamping – During 2008-09 NSL Services Ltd (the Agency's wheelclamping contractor) wheelclamped 97,452 vehicles. In addition to the deterrent effect of this activity on evasion, fine income of £7.9m was raised and passed to the public purse.

Debt Collection – since the Agency's debt collection contract commenced in February 2008, 735,000 cases have been passed to debt collectors. To date this has resulted in £7.2m net revenue collected.

Automatic Number Plate Reader (ANPR) – as part of the Agency's Enforcement Strategy, we continued to roll-out static cameras in Oxford, and Manchester. Additional cameras are shortly to be installed in Middlesbrough, Portsmouth, Liverpool, A55 North Wales and Scunthorpe. Plans are in place for further initiatives in enforcement camera sharing technology with Glasgow Local Authority and the London Boroughs of Enfield, Hackney, and Tower Hamlets.

Foreign registered vehicles – The Agency is currently developing a strategy to monitor the number of foreign vehicles in the UK which do not complying with the Road Traffic Act International Circulation Order 2004, see www.publications.parliament.uk. Data from static cameras at major ports will be used to carry out enforcement action on vehicles contravening the order.


DVLA Enforcement

DVLA Enforcement

In October 2008 DVLA carried out a dedicated week of action throughout the UK against unlicensed foreign vehicles. During the week the Agency's wheelclamping contractor, NSL Services Ltd, together with our own ANPR vehicles and a number of local authorities, were involved in on-street operations. This gave us the opportunity to educate and, in some cases, take enforcement action against the drivers of overseas registered vehicles.

During the course of this exercise, the Agency noted the details of 10,500 EU foreign registered vehicles, put educational and warning stickers and leaflets on a further 1,200 and wheelclamped nearly 40 vehicles that had been previously sighted and warned. The results were so successful that it reached both national and local news.

David Hancock DVLA Head of Enforcement said, "We're not trying to target tourists or people in the country on business. What we want to do is make sure foreign vehicles here for a length of time are correctly registered so that if, for example, there is a road traffic collision, the keeper of the vehicle can be traced.

The enforcement of overseas vehicles is not restricted to this week of action. We have recently installed static cameras at Harwich and Portsmouth to record the details of vehicles entering the country, and there will be a steady roll-out of static cameras at UK ports. NSL Services Ltd and local authorities will also continue to be on the lookout for those non-compliant overseas vehicles.

All these things will play a part in our ongoing fight against evasion and improving road safety".

Transforming customer service

Maintain or improve customer satisfaction to 90% for:

- Private Motorists
- Commercial Customers

Maintain or improve on standard of services to the customer by achieving at least 16 out of 18 customer service measures (see page 21).

3 Customer Service

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

In 2008 a Products and Services Directorate was set up, this represented a new approach by the Agency when considering an end to end experience of customers. From before they know that they need something from DVLA to the time that they receive it: a tax disc, driving licence, registration document or a personalised registration.

Products and Services Directorate is responsible for marketing our services and helping customers understand what they need to do to comply with the law. They ensure that those organisations that work on behalf of DVLA deliver the level of service that our customers expect. Our major forms and leaflets are designed and reviewed in conjunction with customer feedback, helping both the customer and DVLA.

Contact Centre member of staff

The 2008-09 Customer Satisfaction Survey results showed that 92.3% of private motorists were satisfied with our services.

These are some examples of thank you letters received from our customers.

I am writing to thank you for the wonderful service that I have just experienced. My driving licence was due for renewal on 1 April 09 as I will be away I applied on 15 December 08 for renewal in January, hopefully by mid January. The licence came on Saturday 19 December.

Well done, it was a relief to me to have this off my mind.

Mr M

I would like to take the opportunity to thank the staff involved for the help given when I send in my counterpart and driving licence to DVLA by mistake, on reading my licence dates wrongly.

I would especially like to thank the gentleman on my third phone call who after checking my identity, brought my details up on the computer, realised the mistake I had made and said he would sort it out and send me a replacement, which he has done. I receive my new driving licence on Friday to which I thank him.

I would also like to add how pleasant it is to hear such clear sounding voices at the other end of the phone which today is quite rare.

Mrs L

I have to have my driving licence renewed on medical grounds and I wanted to say how efficient and helpful the service has been. This is the 4th renewal I have received recently and once again the process worked smoothly.

Ms B

I wanted to write to say how delighted I have been with the service I have received from your department. Firstly you have very efficiently transferred my private number plate and also I have just taxed my car over the phone and received my new disc within 3 days.

If all government departments were as efficient as you we would have no worries.

Mrs H

4 Electronic Services

Become more productive by taking advantage of technological advances and improved processes therefore driving out waste and delay.

Improved efficiency and capability

Increase customer take-up of electronic transaction channels by March 2009 to 42%.

Service Transformation

DVLA are on track to meet the cross-Government Service Transformation Agreement performance measures by March 2011 as set out below.

- The Motoring section on Directgov, led by DVLA, brought in over 25% of the total traffic to the site with customer satisfaction for Motoring at 84% compared with an average of 78% for other services offered on the portal.
- Achieved a quarterly reduction in avoidable customer contact of 120,292 (26.3%) against a target of 456,528 (100% to be achieved by March 2011). The Agency is currently developing new methodology for tracking, classifying and measuring call volumes. This will provide the opportunity to extract detailed information from calls to take avoidable call reduction forward.

EVL – in 2008-09, over 17m customers re-licensed or completed a SORN transaction online. This resulted in a 47% take up rate based on reminders issued thereby improving both efficiency and customer choice.

DVLA's EVL service continues to provide customers with more effective and efficient service. One reason for this success is that an online or telephone application and payment takes an average of 4 minutes. Volumes hit a peak of 132,215 a day in March 2008, with over 40m customers to date.

Driving Licensing Online – in 2008-09 the Agency undertook 722,602 transactions across the five driver services offered online. Take up rate for the online channel was 14% compared to the equivalent driver transactions on other channels. To increase take-up, marketing is planned for 2009-10 via websites, e-mail, leaflets and inserts into drivers correspondence.

Electronic Vehicle Licensing

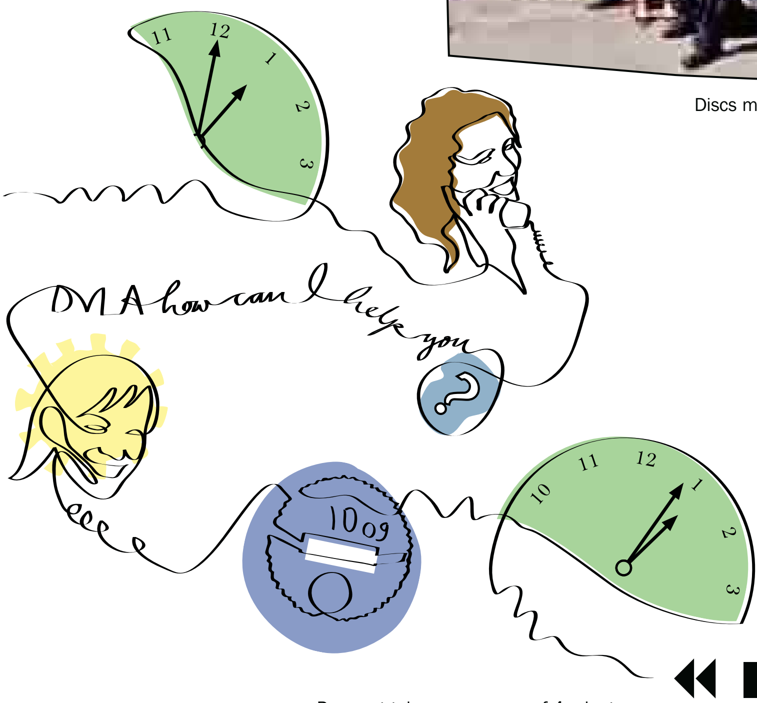
Discs mean prizes!

In June 2008 EVL launched the incentives initiative with the car manufacturer SEAT, whereby customers using the electronic service to tax or SORN their vehicles were entered into a prize draw to win one of up to three cars a month.

DVLA are confident that the prize draw scheme is an extra incentive for customers who try out EVL or notify SORN. We know that out of 100 customers who try EVL, 98 of them come back next time because the customer experience has been so good, saving taxpayers' money.

For further information or to use the facility, visit **/www.direct.gov.uk taxdisc or** telephone: 0870 850 4444.

Discs mean prizes!



Payment takes an average of 4 minutes

More time for the customer

A change in legislation was secured and came into force 1 September 2008 allowing customers who have used EVL to tax their vehicle up to and including the last day of the month, 5 days exemption from the requirement to display a valid tax disc, allowing time for the disc to be delivered by post.

In addition, the licensing window has been opened so that customers can tax their vehicles from the 5th day of the month in which the current tax disc expires; this was previously restricted to the 15th of the month and allows more time for customers to receive their tax discs. This message is being communicated to customers through inserts in the tax reminder forms.

Customer information cards

DfT Simplification Plan

In 2005, the Government measured the administrative burdens imposed by regulations on business, charities and the voluntary sector, and committed Departments and Agencies to a net 25% reduction by 2010.

The initial DfT Simplification Plan identified savings of £120m per annum, of which DVLA has contributed most notably through the introduction of EVL, saving businesses nearly £14m each year. DVLA has delivered 9 of the 15 items on the DfT Plan.

The Agency continues to deliver and develop items in the plan. In 2008, DVLA introduced new on-line services for its personalised registration scheme. As well as providing savings for business, the public and the Agency, customers can now:

- purchase a DVLA personalised registration
- renew their Certificate of Entitlement through a secure payment channel
- make concurrent nominee change and assignment applications.

New items in the 2008 Plan are an enhanced enquiry handling process in the DVLA Contact Centre and improved customer handling procedures in local offices. Together, these innovations have reduced the burden on business by more than £3.5m per annum and provided savings for the public of nearly £2m each year. For further information on the DfT Simplification Plan visit **www.dft.gov.uk/about/eibr/simplificationplan** personalised registrations

DVLA customer gets foot in the door!

Clacton-on-Sea chiropodist Kevin Withers put his best foot forward and became the first person in Britain to buy a DVLA personalised registration online – thanks to DVLA's new commercial website.

While the Agency has sold millions of private registrations over the past 20 years, the 49-year-old became the first customer to purchase a DVLA personalised registration online when, at 8.20am on Thursday, 9 October, he combined his initials and profession in buying the rather apt plate, KW54 TOE.

Mr Withers said: "I just couldn't believe how easy the on-line system was to use. In less than five minutes from start to finish, the plate was mine 'Tremendous'! I didn't realise it at the time, but it's always nice to be the first in anything."

In launching the new online system, DVLA personalised registrations has logged onto the 21st century with its user-friendly web-service designed to make buying a personalised registration as swift and easy as possible. Previously, the DVLA operated a telephone-sales system only.

Combining with the Agency's much heralded interactive site, which allows users to instantly hunt through the 28m registrations available, place it on a car of their choice and then, with a click of a mouse, have it for their own.

1st online customer

DVTV in LSN

Face to Face Customer Service

Local Services Network

Automated Cherished Transfer Service at the LSN

DVLA has simplified the process for assigning a purchased registration number to a vehicle. When buying personalised registrations, the purchaser must supply their details and if they want to pass the personalised registration on to someone else, they must also supply that person's details. The number plate can then only be registered to a car that is owned by either the initial purchaser or their nominee. Previously if a purchaser wanted to change their nominee they needed to send their Certificate of Entitlement back to DVLA Swansea to update, then post or take it to their DVLA local office to register it to the car of their new nominee.

As of 9 October 2008, the nominee can be changed when assigning the mark at a local office, making the process much less time consuming and simpler. This will benefit DVLA customers as well as dealers of personalised numbers.

One to watch

With over 2.5m customers visiting our LSN every year, effective communication is of paramount importance. To help improve the DVLA customer experience, the Agency has introduced a new version of its award winning digital signage system – DVTV.

DVTV is a new system that controls the plasma screens in Local Office reception areas. It provides the customer with a mix of Agency messages with a host of highly visual, live content such as worldwide news, local weather and traffic information.

The original version of DVTV was introduced to Local Office reception areas in 2006, where it proved to be a success winning the Chartered Institute of Public Relations Gold award. At the time, it was only able to display static screens, but it had an immediate impact on the way the Agency communicated with its customers. The introduction of new plasma screens has enhanced the service and created a focal point within reception areas, the messages passing across the screens have attracted customer attention.

5 **Efficiency**

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

Improved efficiency and capability

By restraining transaction unit costs and through other initiatives, deliver financial savings of £19.5m.

DVLA met the targets to achieve £80m in savings in the period 2004-08 and to reduce the size of the workforce by 500 FTE. In 2008-09 the Agency delivered the first £19.5m in its progress towards the next three-year target.

Operational Excellence – empowers teams to become more efficient and effective.

The Agency's main objective for 2008-09 was to free up enough capacity to deal with the increase of work expected from the new Ten Year Renewal driving licence transaction. As a result, plans to release 210-230 people's worth of time was identified.

A number of Lean reviews were carried out during December 2008 – March 2009. These were designed to map out the processes. For each process a team of operational staff was put together to:

- map how the process was carried out
- identify anything that did not add sufficient value
- come up with a new streamlined way of doing the work.

Operational Excellence is currently expanding to build up a full end to end service review capability that puts customer service to the fore, aiming to eliminate waste in processes. It is also tasked to develop a Lean thinking culture where staff develop and implement ideas and changes for themselves, using Lean tools and techniques.

Image Capture Data Archive

DVLA's Image Capture Data System (electronic data store) was successfully completed in September 2008. The system has replaced the old microfilm technology to provide a document and record management facility that will satisfy current business needs.

In addition, a new high-speed scanner has replaced microfilming cameras that will simultaneously scan documents and archive images. The new processes will result in large savings in valuable floor space. Archiving images digitally provides a more efficient process, allowing viewing availability resulting in a quicker response time to customer enquiries.

We can demonstrate how customer-facing staff insight and experience is incorporated into internal processes, policy development and service planning.

Customer Service Excellence standard

"Staff are actively involved in planning services in various ways and you actively encourage staff to make suggestions. The Operational Excellence programme has already involved 100 operational staff in the review of six business processes. This is indicative of how DVLA are utilising the experience of customer-facing staff to improve processes in a structured and systematic way"

CSE assessor

Shared Service Centre

During the year, DVLA continued to work with the DfT SSC to streamline its HR, Payroll, Procurement and Finance processes and deliver the benefits forecasted in 2006 prior to implementation. See also Statement on Internal Control (page 60).

6 Organisation and Staff

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

Improved efficiency and capability

Reduce average number of days sick absence for 2008-09 to 11.2 days.

Sick Absence, Health and Well-being

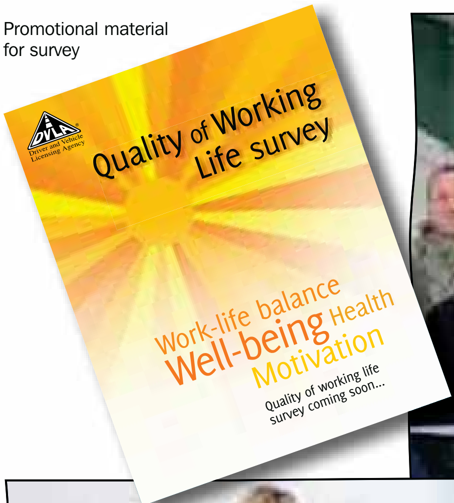
During 2008-09, the Agency significantly overachieved on its sick absence target of 11.2 days. A reduction of over 30% was achieved in comparison to last year, with average working days lost to sickness reducing from 13.2 to 8.97 days over the year.

This reduction was achieved as a result of more proactive management of absence and development of initiatives including more detailed management information; targets for which managers are accountable; robust management of long-term cases and earlier support in stress-related and musculoskeletal disorders, including access to a physiotherapist. Manager capability has been improved through briefings and delivery of a new training event and development of short guides.

A Quality of Working Life survey was undertaken in June 2008 and the results communicated to staff. An action plan, in line with the Health and Safety Executive's stress management standards, is being implemented to address the issues raised in the survey.

A strategy has been developed which makes the links between tackling sickness absence, promoting health and well-being, and delivering an engaged and motivated workforce and this was launched in conjunction with the opening of a new on-site fitness facility in October 2008. There has been an increased focus on health promotion activity and lifestyle advice including introduction of smoking cessation classes and a Health Matters newsletter. A 'Round the World' challenge was also launched in January 2009 to encourage staff to become more active. Over 800 staff are competing to cover the 25,000 miles distance around the world and are on target to achieve this goal.

Promotional material for survey



Around The World Challenge

Stage 1 winners

happy at work & healthy for life

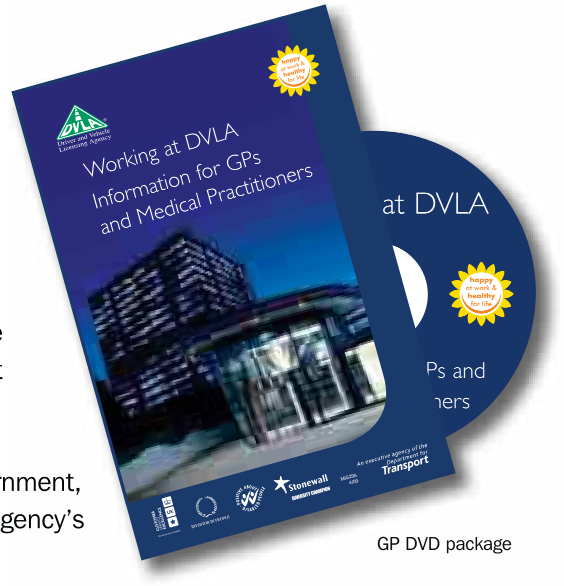
The Agency has produced a film which has been presented at local General Practitioners (GP) training forums to develop links with GPs and open lines of communication in preparation for the planned implementation of *fit notes* to replace *sick notes* from April 2010. This innovative work has been recognised in People Management and Personnel Today magazines.

DVLA has also introduced an Employee Assistance Programme, which provides staff and their immediate families with access to a 24 hour telephone based counselling service. This includes advice on debt and legal matters.

In 2009-10 DVLA will continue to drive a reduction in sick absence levels through implementation of the health, well-being and attendance strategy. This will focus on a more proactive and preventative approach to managing attendance in consultation with the newly appointed Occupational Health provider (SERCO).

Human Resource

In 2009 the Agency developed a new Human Resource Development Strategy in line with the recommendations of the DfT Capability Review. Key themes identified were Leadership & Management Development to support not only Job Families and Professional Skills in Government, but also to align with the Agency's Transformation Agenda.

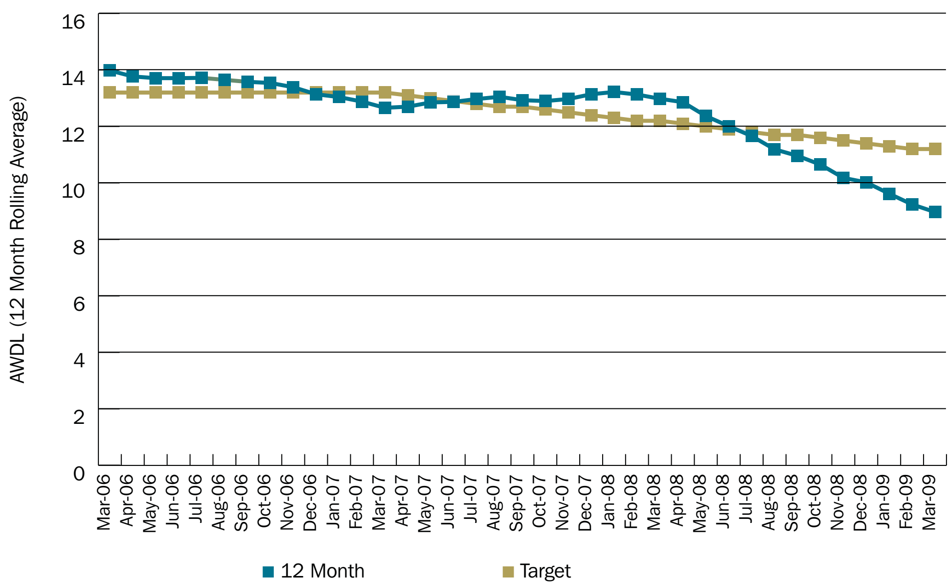


GP DVD package

Diversity

A new framework for embedding diversity across the organisation is gathering pace. A Diversity Action Group has been set up and diversity champions (Agency Directors) for gender, race, sexual orientation and disability have been appointed. Action plans have been drawn up based on the management information we hold for each of the diversity strands (visit www.dvla.gov.uk/publications) which the diversity champions are proactively driving forward. Mandatory diversity training for all staff is underway.

DVLA Sick Absences (AWDL)



Performance Development Review (PDR)

The Agency has launched a new PDR process. The new arrangements are intended to make the measurement of performance more objective. It will also be made clear to all staff what the Agency requires of them, in terms of the delivery of their objectives and the skills and competencies needed to do their jobs, whilst more fairly rewarding staff for their contribution to the Agency. A training programme has been rolled out to all Agency managers.

Management development

Staff Performance

New arrangements have been introduced for assessing staff performance, and reward through pay for achieving objectives.

Graduate Recruitment Campaign

The Agency introduced a Graduate Recruitment Campaign in January 2009 to select seven graduates to join the Agency.

Recruitment Review

The Agency carried out two reviews on Recruitment and Job Families in 2008. A number of recommendations for improvements were put forward. In addition a benchmarking exercise with other organisations, to learn from their experience of introducing Job Families, has been commissioned.

DfT Skills Strategy

The Agency has achieved the DfT 2010 Skills Pledge target of 95% of staff with a Level 2 qualification.

The Agency also started awareness sessions for Modern Apprenticeships/NVQ's in Business Administration, Customer Service and IT to further build on the success of these initiatives in previous years.

Partnership working

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

Electronic Links Implementation & Strategic Enablement (ELISE)

DVLA's ELISE project was established to define and implement a secure communications gateway for all external Business-to-Business (B2B) electronic transactions. The services provided are generic and applicable to all B2B partner interfaces.

During 2008-09, the secure file transfer and web service platforms within ELISE were completed. The initiatives implemented included the following.

- The issue of CPC cards on behalf of the DSA.
- Identity Cards for Foreign Nationals (ICFN) in conjunction with UKBA & Identity and Passport Service (IPS).
- EUCARIS II real-time service – providing driver and vehicle data across Europe.

Certificate of Professional Competence

Working closely with DSA, the Agency successfully issued the first Driver Qualification Card in September 2008. DSA will be expanding the scheme to professional Large Goods Vehicles drivers in 2009. The Agency will continue to issue these cards on their behalf.

Identity Cards for Foreign Nationals

In November 2008, DVLA commenced the production of ICFN on behalf of the UKBA.

The cards are the first to be issued as part of the Government's wider identity card scheme. Customers have their fingerprints and photographs taken at one of the UKBA seven local offices and the data is sent through a secure link to DVLA. This information is incorporated in encrypted form onto the cards containing a microchip for biometric data. Since November 2008, the Agency has issued over 37,000 cards.

Home Office
UK Border Agency
Identity & Passport Service

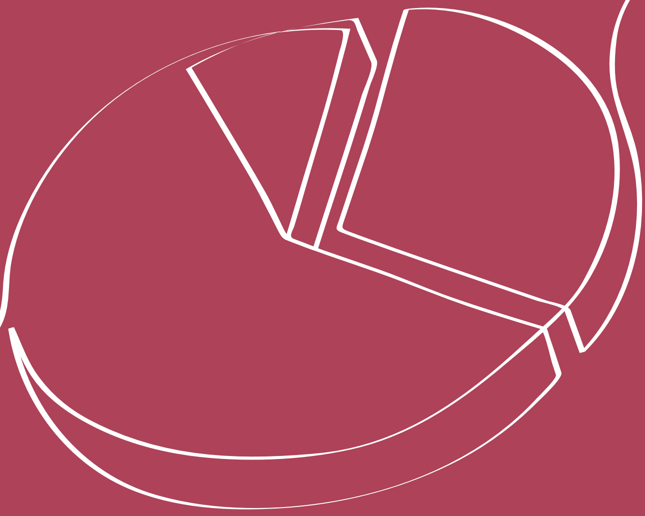
Driver and Vehicle Licensing Agency

Statement as to disclosure of information to auditors

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

N.C. Shanahan

Noel Shanahan
DVLA Chief Executive and Accounting Officer
25 June 2009



Management Commentary

DVLA dealt with 110m transactions or queries raising income of £651.6m and tax receipts of £5.5 billion, operating within legislation and HM Treasury rules on how to raise money and set fees.

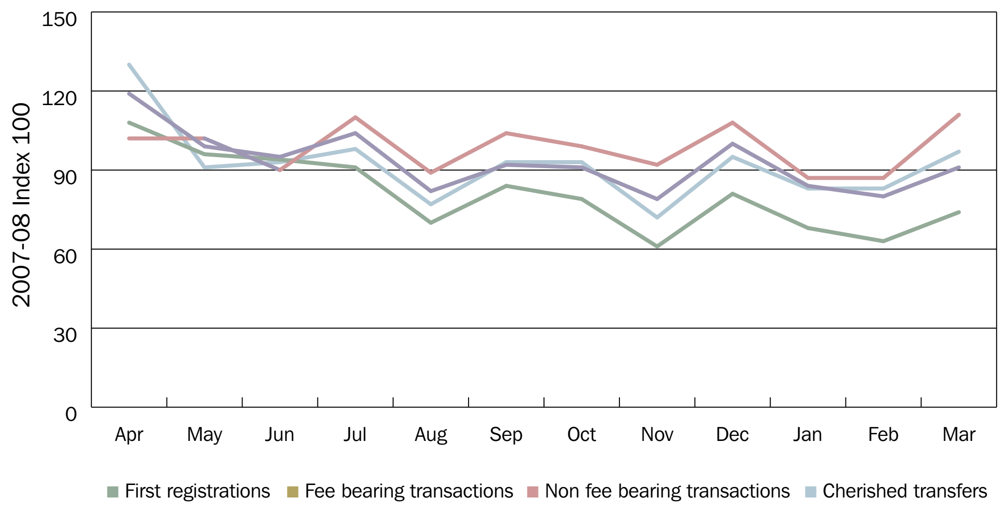
Operating commentary

Vehicle transactions

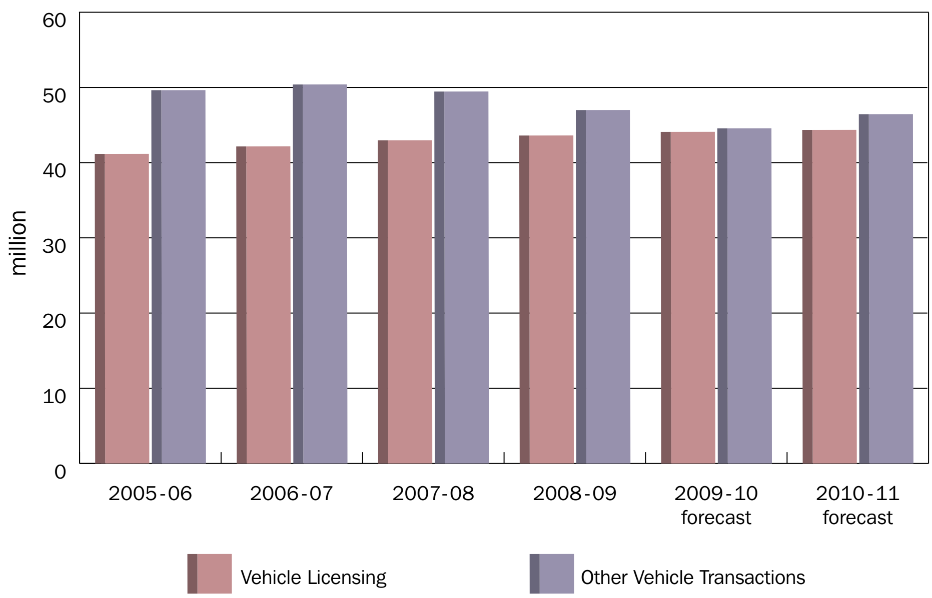
In August 2008, transaction numbers dropped steeply in some areas as the economic downturn took effect, with greatest impact for DVLA in terms of first vehicle registrations. Fee bearing transactions were down by 18% overall compared to previous financial year, although these impacts were only felt for the last 8 months. Numbers of free at point of delivery transactions, such as address changes, were down by a lesser extent (11%).

By February 2008, fee bearing transactions were 20% down, with First Vehicle Registration down by 37% and non-fee transactions down by 13%. The financial impact of these volume reductions is set out on page 59 and elsewhere in this report.

Vehicle Transactions 2008-09



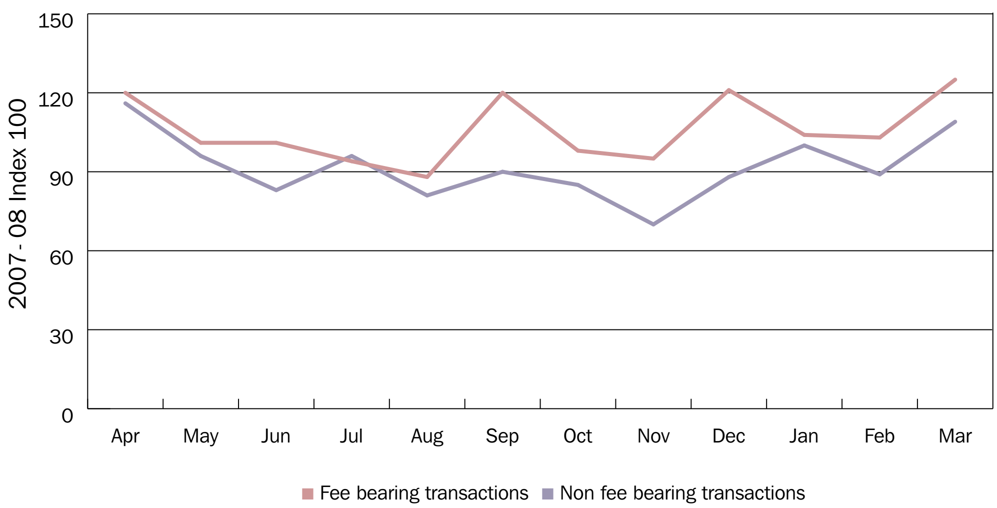
Vehicle Transactions Volumes 2005-06 to 2010-11



Driver transactions

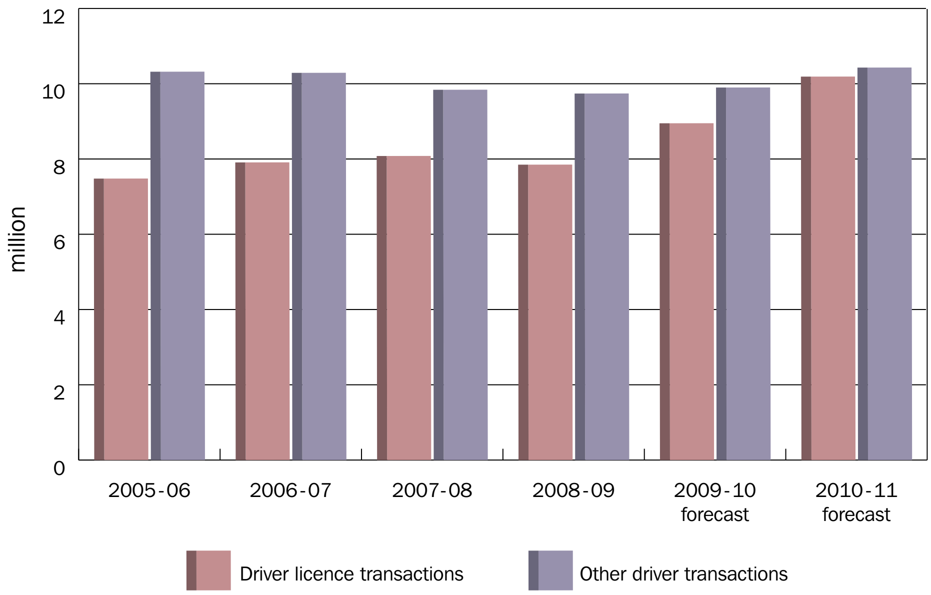
Driver transaction numbers were not affected to similar extent. Even so, driving licence applications were below plan and, with these being the highest single contributor to DVLA income on the Drivers side, this too had a significant impact on our financial out-turn.

Driver Transactions 2008-09



For 2009-10, the Agency anticipates a pause in long-term volume growth for existing transactions. The reason the chart below shows an overall increase is because of a significant hike in the new ten year photograph driving licence renewal transaction.

Driver Transactions Volumes 2005-06 to 2010-11



Economic Downturn Impact

The largest effect of the economic downturn was found in 2008-09 through the impact on sales of new vehicles, in terms of fee earning transactions for DVLA through the first vehicle registration fees. These transactions carry a fee of £55 each and, therefore the impact on DVLA income was significant.

DVLA Vehicles – First Registration Transaction Volumes

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Full Year
First Registrations 2007-08 Actual	219,229	240,930	279,409	227,258	195,781	413,961	223,915	219,210	172,843	199,386	187,800	433,401	3,013,123
2008-09 Actual	237,052	231,110	264,041	206,231	137,496	349,074	176,409	132,751	140,730	135,459	118,473	320,092	2,448,918
%age change 08-09 compared with 07-08	8.1%	-4.1%	-5.5%	-9.3%	-29.8%	-15.7%	-21.2%	-39.4%	-18.6%	-32.1%	-36.9%	-26.1%	-18.73%

Financial and Efficiency Commentary

DVLA collected £5,538m of VED revenue and passed it directly to the public purse. Revenue is kept separate from Trading Fund income covered here. VED Accounts are covered in Section 4. The same is true for enforcement of VED fine income of £49.1m, which is also surrendered directly to the Consolidated Fund, but is reported in Note 26 of the DVLA Business Accounts, although not included in the Income & Expenditure figures as it falls outside the Trading Fund.

The Trading Fund, as reflected in its own Business Accounts, receives income from:

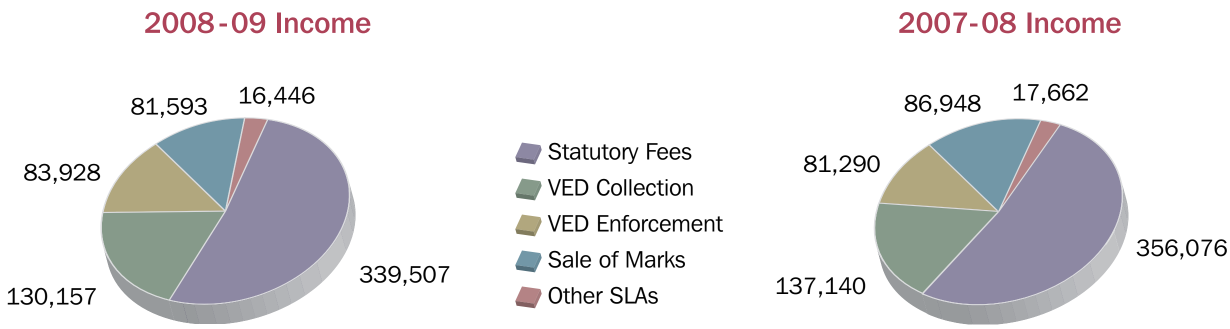
- users of our registration services through fees and charges
- DfT under Service Level Agreements for collecting and enforcing VED
- the gross income generated by Personalised Registrations and Cherished Transfers to cover costs with the surpluses surrendered to the Consolidated Fund as Extra Receipts
- charges to other public sector organisations for using our services or facilities
- funding from DfT to develop the Shared Service Centre.

Income

The total gross income for the year (£651.6m) shows a decrease of some £27m from that of the previous year (£679.1m) and was £54.5m below the projected gross income forecast in the Business Plan. However, £7.3m of the income for the year relates to DfT reimbursement of Shared Service Centre development costs and was not included in the original Business Plan.

The decrease from the last year principally resulted from a downturn in statutory fee earning transaction volumes, in particular that of vehicles first registration, as a result of the economic downturn. It also reflects the introduction of the transfer to government grant reserve of Service Level Agreement (SLA) income received in relation to capital expenditure previously brought into account in revenue.

The fee levels were set for the year to cover continuing revenue expenditure on systems and process developments and so included an element of increase to cover these additional costs. The significant majority of Agency income continues to relate to its external activities through statutory fee earning activities or commercial activities. The VED activities remain funded through the volume related SLA with DfT, with the levels of forward funding secured through Comprehensive Spending Review settlement for DfT that takes these DVLA tax-related activities into account.



Expenditure

The expenditure for the year (£566.2m) shows an increase of some £24.4m from that of the previous year (£541.8m) but was £19.5m less than originally forecast in the 2008-09 Business Plan.

The main areas where expenditure has increased compared with 2007-08 are:

(i) Agent Costs (those elements of DVLA activities that are outsourced) which rose from £232.6m to £237.8m an increase of £5.2m or just under 2.2%. Agent activities include IT development, maintenance and delivery services, facilities management, counter services through Post Offices® and wheelclamping services. In total, such services account for 42% of Agency total operating expenditure. The increase in Agent Costs for 2008-09 was almost wholly accounted for by the increase in the Private Finance Initiative (PFI) Estates Unitary Charge refurbishment element of the Agency's estates (see note 4 para (ii)) as the refurbishment of the accommodation was largely completed but DVLA were still within the migration stage.

(ii) Management Consultancy costs mainly associated with IT development, maintenance and delivery services increased by £6.5m principally attributable to the introduction in year of Drivers Electronic Services and Operational Excellence initiatives.

(iii) Stationery and Printing which increased by £4.8m. This is due mainly to the production of higher specification Drivers Licence cards. In January 2008 the blank cards were sourced under a new contract in order to fulfill the requirement for additional security features – thereby increasing the integrity of the card. 2008-09 was the first full year of operation of the new contract.

The Agency has responded pro-actively to the economic downturn in keeping costs as low as possible by re-prioritising projects, introducing a 2% cut in operational expenditure, scrutinising and minimising discretionary expenditure and imposing strict rules relating to travel and subsistence.

(Deficit)/Surplus, Reserves and Capital Maintenance

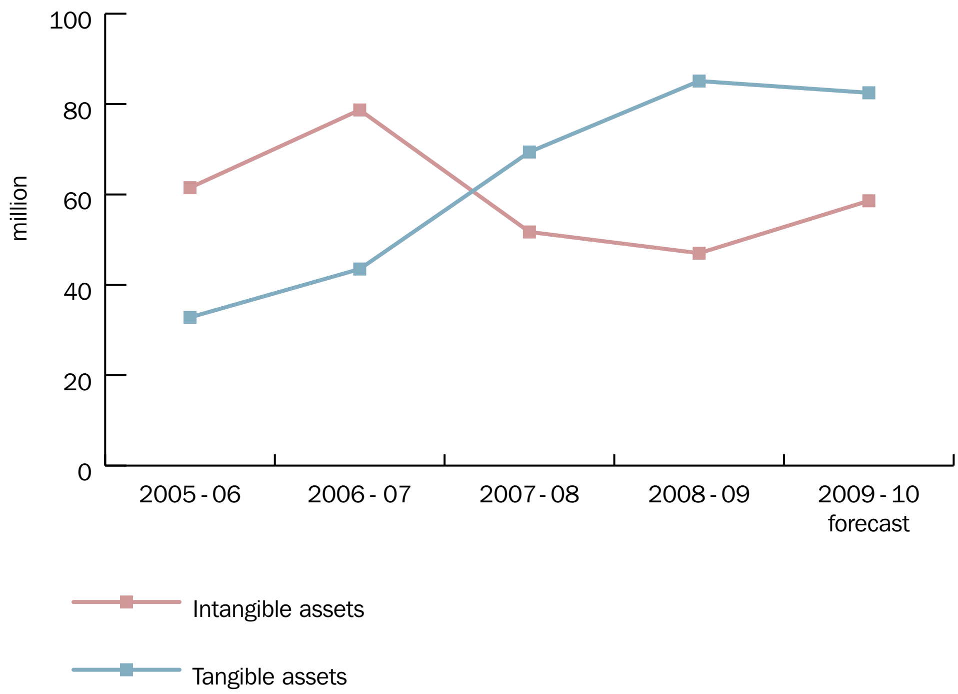
The net decrease in income and increase in expenditure from the previous year resulted in a deficit for the year 2008-09 of £21.6m against an original Business Plan forecast of a surplus of £4.7m. The Dividend payable to DfT from retained surpluses was £4.4m for 2008-09 (£5.2m in 2007-08).

The investment in fixed assets to maintain the DVLA capital base follows the split of activities in exactly the same way as for revenue items. The majority of the funding investment emerges from the Fees & Charges stream, though the VED SLAs undertaken on behalf of HM Treasury on a transaction volume basis contain elements for maintenance and renewal of the elements of the Vehicles Systems used to support VED administration. In the same way, renewal of intangible fixed assets such as Sale of Marks software is provided through retention of sales receipts through agreement with HM Treasury.

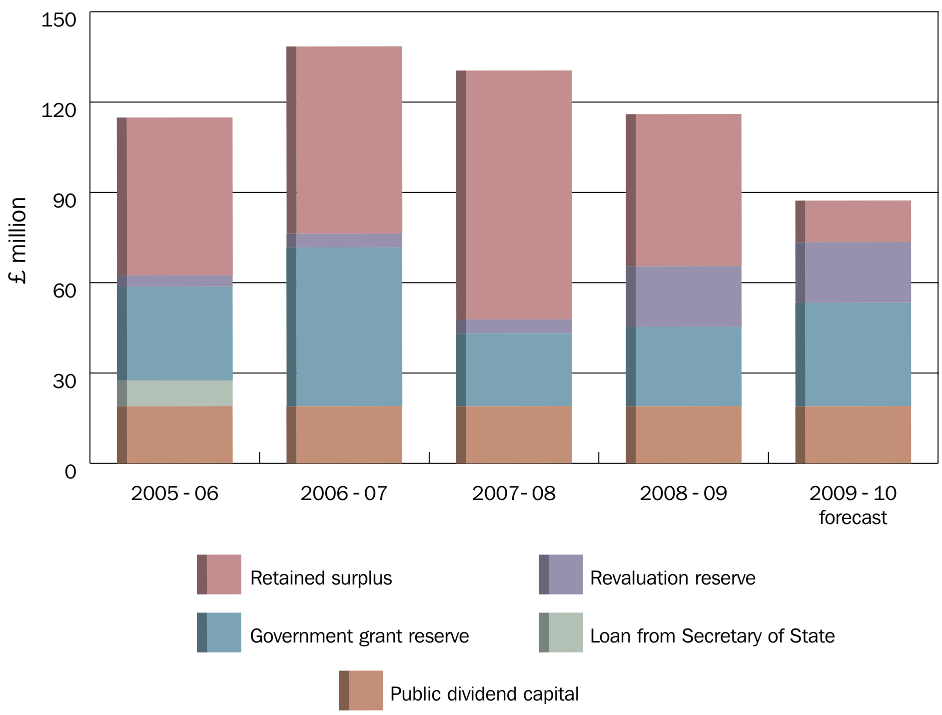
The first four years of Trading Fund operation saw surpluses of income over expenditure totalling £75.1m, to add to the initial £7.6m recognised in the Trading Fund Order, as fees collected in advance of services delivered. This gave a total operating reserve of £82.7m at the end of 2007-08. The £21.6m deficit in 2008-09 together with the £9m adjustment in relation to prior years SLA funded capital expenditure has reduced this to £52m. This retained operating reserve represents around 8% of the current annual income level and has been used to underpin asset reinvestment. This is now at a relatively low proportion when compared to other Trading Funds.

The renewal and ongoing maintenance of our capital asset base from retained operating surpluses was catered for in our original Trading Fund projections and agreed with HM Treasury. The following figures show how the overall capital base has changed since we became a Trading Fund.

Fixed Assets



Capital and Reserves



Asset Management Strategy

DVLA has developed a straightforward asset management strategy, based on its key assets, its Swansea freeholds and the value of its computer systems software to run its registers.

In terms of estate, DVLA holds land, freeholds for its main operations centre in Morriston and long leaseholds for the Richard Ley Development Centre (RLDC) in Swansea Vale and the Felinfach site at Fforestfach, which represents the sustainable core business requirement. At the end of 2008-09 the Trillium PFI contract had largely completed the Morriston refurbishment. Facilities management will be provided across the full freehold/leasehold portfolio through until 2025. The Swansea Vale buildings (excluding RLDC) are short-term leasehold, as are all the local offices. There are no additional properties or surplus estates receipts anticipated although DVLA anticipates reducing its occupation of leased premises.

In terms of computer systems, the technology base itself is provided by the PACT contract through service charges levied depending on the level of service delivered and volume of demand fulfilled. There are values attached to the software in use to maintain the main registers and development of the New Systems Landscape involves significant capital investment and asset recognition for our new systems such as EVL and DRP. The DVLA *Strategic Agenda 2008-13* sets out a comprehensive routemap for their development.

Efficiency

In the Comprehensive Spending Review 07 settlement DVLA was given an efficiency target of £80.7m to be delivered over a period of three years with 2007-08 as the baseline, allowing for volume growth and inflation. The Agency has delivered its target of £19.5m for 2008-09 through the following initiatives.

(i) Productivity – through continuous improvement and automation of further processes the Agency has absorbed new work (primarily Ten Year Renewals) with fewer resources (reductions being made through natural attrition). DVLA's programme also included various contract efficiencies through re-negotiations and savings from the on-going restructuring of the Local and Enforcement Offices network.

(ii) Service transformation – the Agency has continued to deliver savings through greater take up of EVL.

(iii) Refocused compliance – through continuing the use of debt collection agents rather than bringing legal actions, as introduced in 2007-08, the Agency has maintained the reduction of 108,000 potential costly court cases per annum.

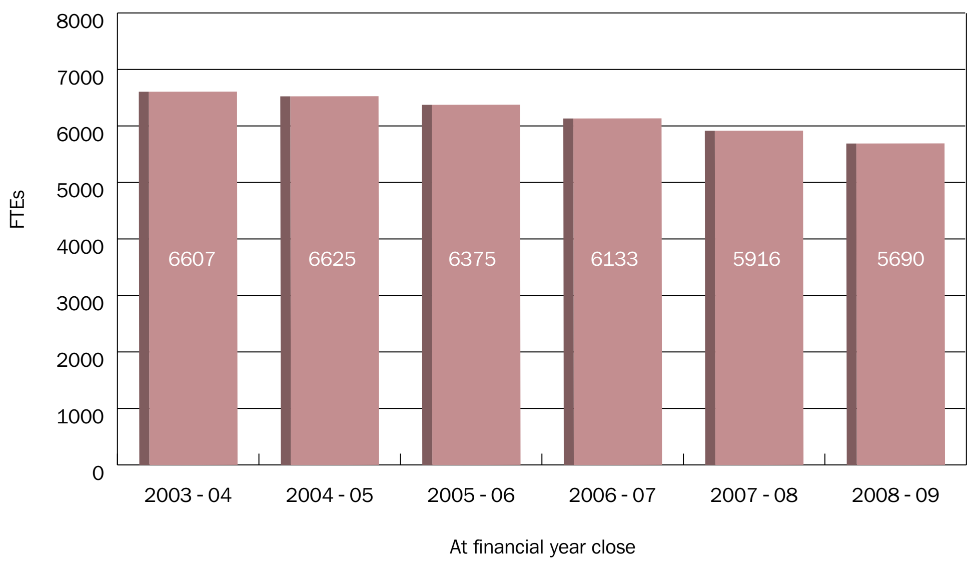
(iv) Estates framework – the organisation change programme and the introduction of non-territorial working has resulted in accommodation space savings across the DVLA estate with the vacation of several properties resulting in cash savings.

Workforce

For the period 2004-08 the Chancellor of the Exchequer set the Agency a target net workforce reduction of 500. The Agency met that challenge and the downward trajectory continued through 2008-09 (see chart below).

A combination of planned efficiency savings, postponed projects and reduced transaction volumes led to the need for workforce reduction, achieved through individuals choosing to leave the Agency for their own reasons.

DVLA Workforce 2003-09

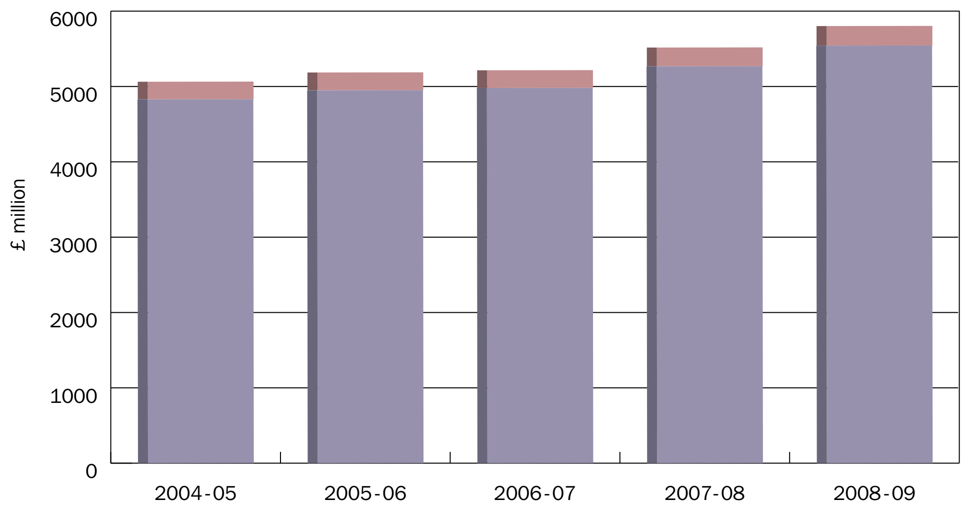


VED Collection and Enforcement Commentary

VED Collection

There was a significant increase in gross VED receipts collected during 2008-09 to £5,791m, up £273m (4.7%) from the £5,518m reported last year. With the value of refunds down by £1m to £248m from last year, this resulted in a VED tax collection net of refunds for the year of £5,543m. This is the highest level of tax receipts ever collected by DVLA and continues an upward trend, supported by the gradual increase in number of vehicles in use even though the first registration volumes for vehicles has noticeably reduced during 2008-09.

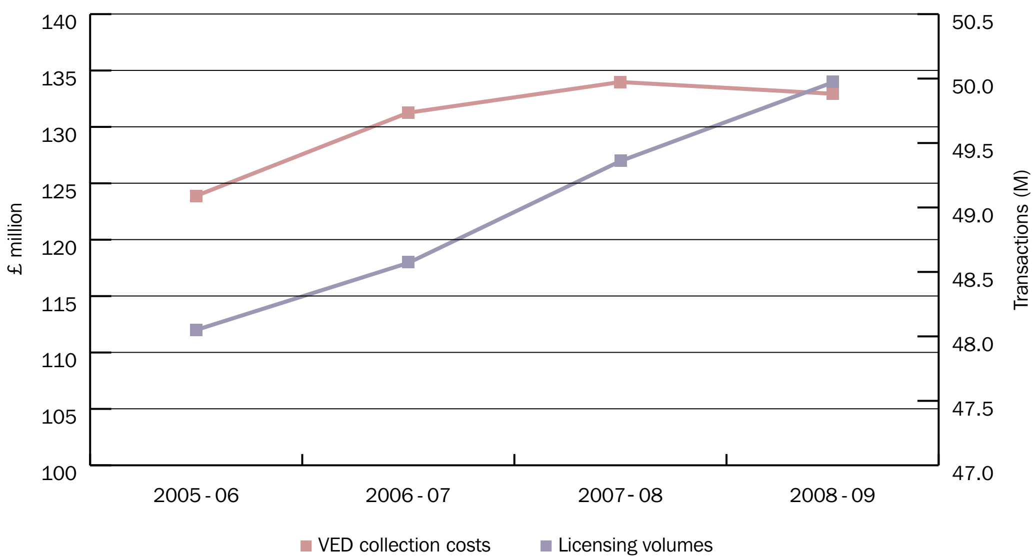
Vehicle Excise Duty Collected 2004-05 to 2008-09



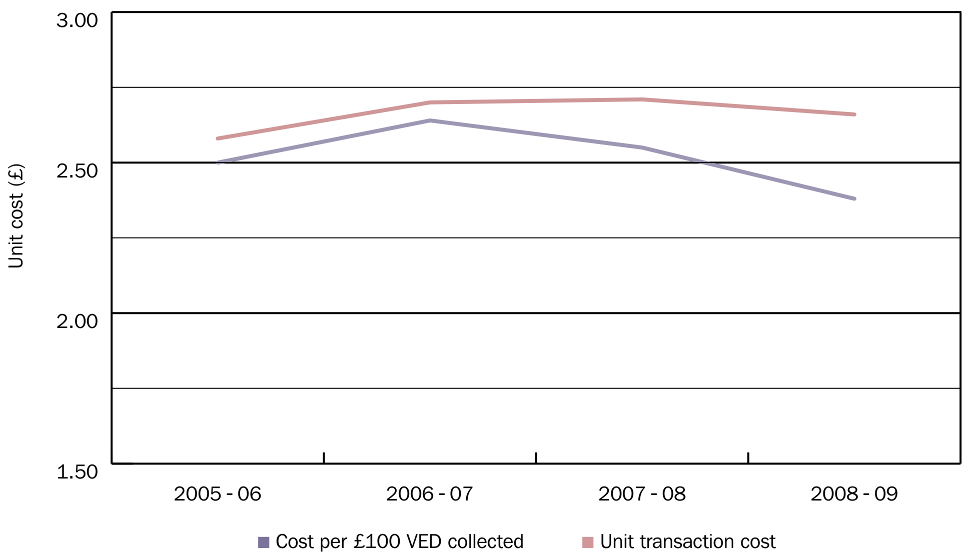
Costs of Collection and Unit Cost (per transaction)

The number of licensing transactions has risen gradually during the period. DVLA has been able to reduce unit transaction costs and therefore maintain overall VED collection costs largely as a result of the introduction of EVL and process automation.

VED Collection Costs and Licensing Volumes



VED Collection Unit Costs

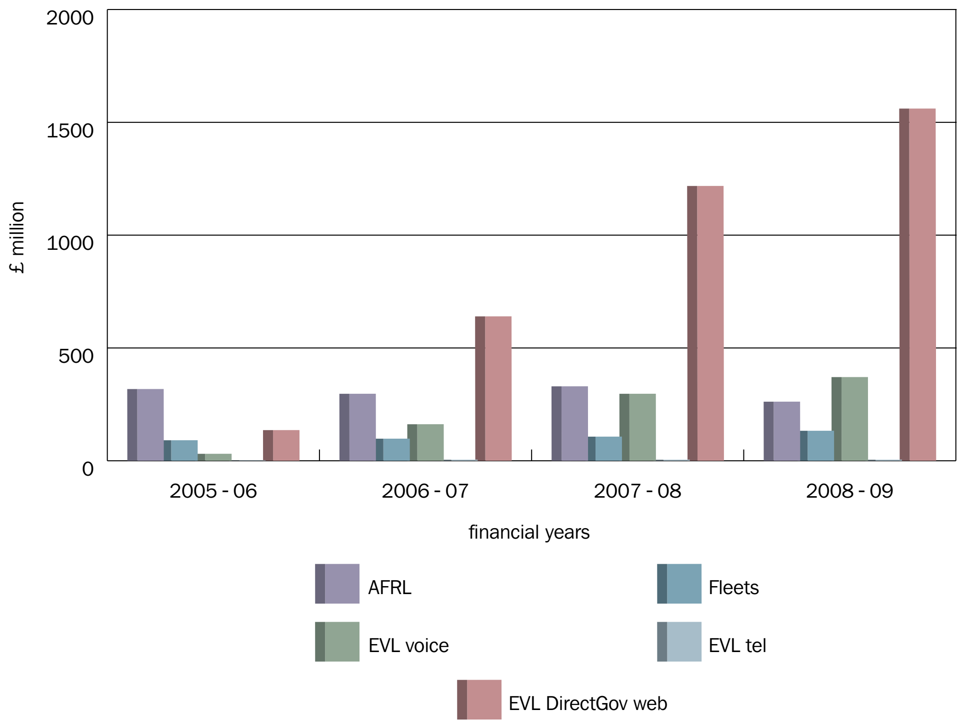


Channel Shift

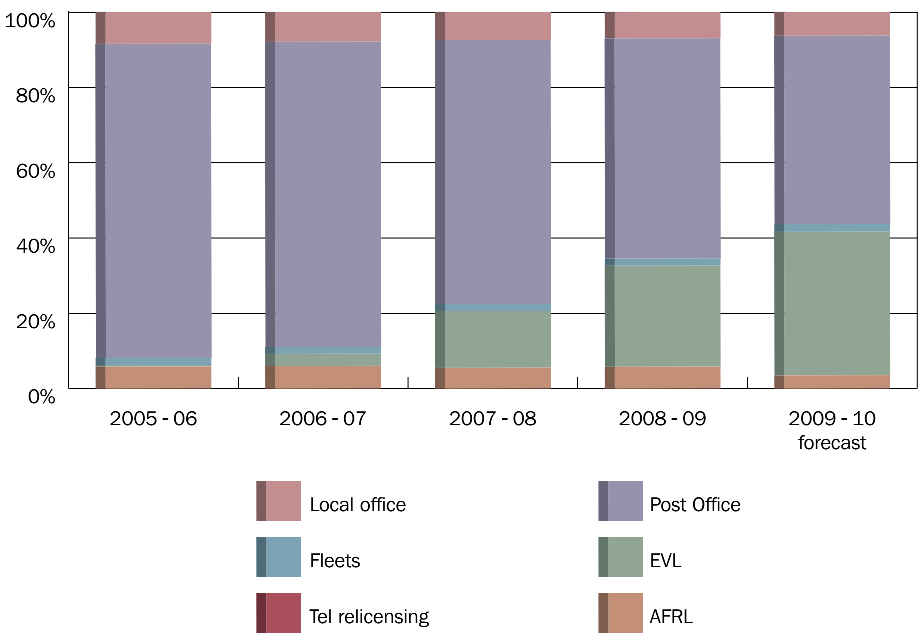
Channel shift and VED receipts by electronic channel are graphically illustrated opposite, with a significant shift from the more expensive face-to-face transactions to online transactions. Such a transaction shift has inevitably involved an increase in calls to the DVLA contact centre in terms of transaction support and queries. Since the prime counter channel for face-to-face is at the Post Office®, this has had the unusual impact of increasing DVLA workforce whilst decreasing our costs.

The impact in financial terms in channel delivery is shown below.

VED Cash Receipts Collected via Electronic Channels



Vehicle Excise Duty by Channel



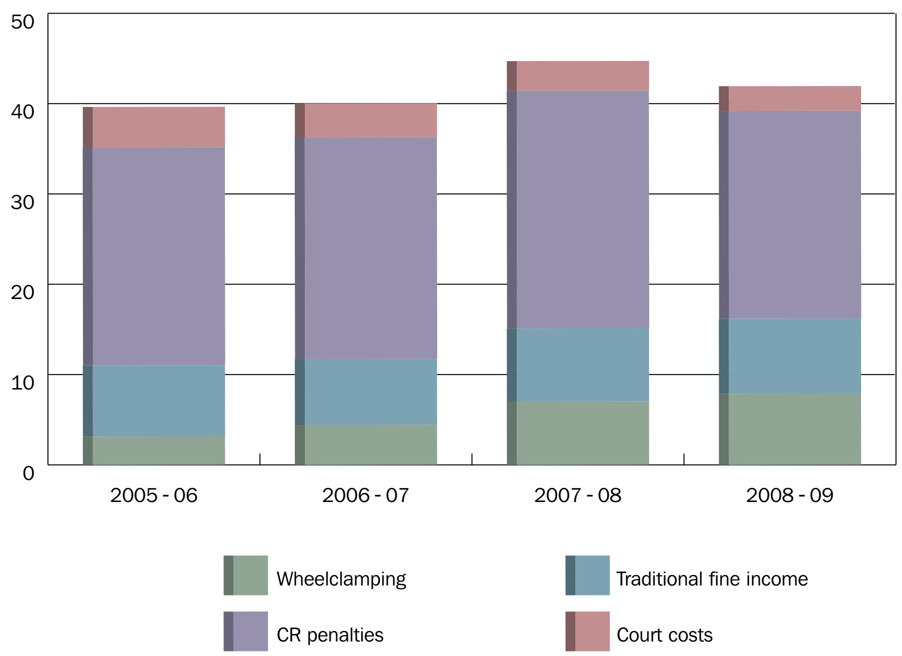
VED Evasion

At the same time as making it as easy as possible for customers to license their vehicles, DVLA continues to operate a broad range of enforcement measures designed to make payment of VED very difficult to evade. The DfT annual survey delivered estimates of only 0.9% (2007 – 1.5%) evasion results at June 2008, which translates to an evasion figure of approximately £50m (2007, £79m).

Enforcement measures used include a strong advertising message, encouraging compliance; automated penalties generated from the record; use of debt collection agencies to pursue unpaid penalties; and use of automatic number plate recognition to detect and prosecute users of unlicensed vehicles. In addition, DVLA and its police and local authority enforcement partners took direct roadside enforcement action to wheelclamp and impound well over 100,000 unlicensed vehicles in 2008-09.

With the valued support of HM Treasury, DVLA secured additional powers in the Finance Act 2008 to widen the areas where direct enforcement action can be taken against unlicensed vehicles. In addition to existing powers to wheelclamp and impound unlicensed vehicles used on the public road, DVLA and its devolved powers enforcement partners can now take action against unlicensed vehicles stored in many areas off the public road. The Agency is using the new powers to target areas used to harbour unlicensed vehicles that were previously beyond its reach.

Enforcement Income



Estimating the Level of VED Evasion

Annual roadside surveys undertaken by DfT provide an independent estimate of VED evasion using vehicle sightings throughout the month of June gathered at around 250 sites spread across the UK. The sighting data are then compared with information on the licensing status of the vehicles concerned to generate an estimate of VED foregone through evasion. Following changes to the methodology employed between 2006 and 2007, the 2007 results formed the first evasion estimate in a new series.

The 2008 Roadside Survey estimates for VED evasion show that evasion has dropped even lower in Great Britain reflecting a very high level of compliance. Evasion in traffic fell from 1.1% to 0.7%. The estimated percentage of unlicensed vehicles in active stock fell from 1.7 % to 1%. DVLA collected for HM Treasury, 99.1% of all potential revenue from road tax – £ 5,538m.

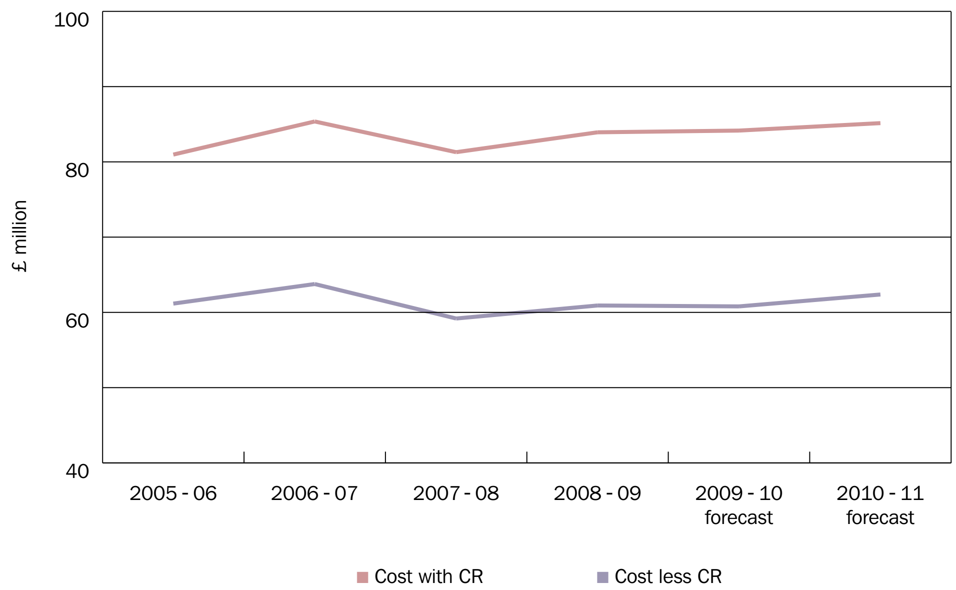
The total number of unlicensed vehicles in active stock at any one time was estimated to have fallen from 589,000 in 2007 to 330,000 in 2008.

Measuring the Effect of Enforcement Action

The Agency regularly scans the vehicle register identifying vehicles that were previously unlicensed, but had been licensed following enforcement action by DVLA. This gives the total of the VED generated by DVLA direct intervention through enforcement.

The Secretary of State target for induced relicensing is to collect an agreed amount of revenue through VED enforcement action totalling £100m over the period 2008-11. The amount delivered for 2008-09 is £52m against the year's interim monitoring target of £30m.

Enforcement Costs



Remuneration report

Remuneration policy

The remuneration of Senior Civil Servants is set by the Prime Minister following 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 that are open-ended until they reach the normal retiring age of 65. 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 54-55.

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. No director's bonus exceeded 10% of total salary.

Remuneration of Executive Board Members

	Salary including performance bonus (£000s) 2008-09 £000	2007-08 £000
Chief Executive		
Noel Shanahan (from January 2008)	110-115	20-25
Clive Bennett (to December 2007)	n/a	115-120
Executive Board Members		
Ieuan Griffiths – Finance & Strategy	100-105	95-100
Richard Kitchen – Policy & External Communications	75-80	75-80
Sharon Baker – PACT Services (to May 2008)	15-20	75-80
Leigh Allen – Programmes (from May 2008)	65-70	n/a
Paul Evans – Programmes (from March 2009)	5-10	n/a
Avril Beynon – HR & Estates (to April 2008)	5-10	70-75
Judith Smith – HR & Estates (from June 2008)	60-65	n/a
David Hancock – Local Operations (Executive Board Member to July 2008)	20-25	80-85
David Evans – Central Operations (Executive Board Member to July 2008)	15-20	75-80
Andrew Rhodes – Customer Services (Executive Board Member from January to July 2008)	15-20	15-20
Simon Tse – Chief Operating Officer (from April 2008)	80-85	n/a
Robert Duncan – Shared Services Centre (from June to December 2007, at which point role transferred to DfT)	n/a	55-60
Kate O'Connor – Shared Services Centre (to August 2007)	n/a	40-45

Chief Executive Remuneration	£000	£000
Noel Shanahan (from January 2008)		
Salary	103	25
Bonus Payments	12	0
Pension Contributions	39	9
	154	34

Pension Benefits	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
		31/03/2009	31/03/2008*	31/03/2009		
	(£'000s)	(£'000s)	(£'000s)	(£'000s)	(£'000s)	(£'000s)
Noel Shanahan	0 – 2.5	5 – 10	68	106	3.6	30
Ieuan Griffiths	0 – 2.5 plus –2.5 – 0 lump sum	30 – 35 plus 55 – 60 lump sum	566	631	13.6	10
Richard Kitchen	0 – 2.5 plus 0 – 2.5 lump sum	35 – 40 plus 110 – 115 lump sum	801	857	1.2	–
Sharon Baker	5 – 10 plus 15 – 20 lump sum	25 – 30 plus 80 – 85 lump sum	426	540	0.2	116
Avril Beynon	-2.5 – 0 plus -2.5 – 0 lump sum	30 – 35 plus 100 – 105 lump sum	798	824	0.1	–
David Hancock	0 – 2.5 plus 0 – 2.5 lump sum	5 – 10 plus 20 – 25 lump sum	150	155	0.3	3
David Evans	0 – 2.5 plus 0 – 2.5 lump sum	15 – 20 plus 55 – 60 lump sum	274	289	0.3	2
Andrew Rhodes	0 – 2.5	2.5 – 5	16	20	0.5	3
Judith Smith	0 – 2.5	0 – 2.5	–	9	2.2	7
Simon Tse	10 – 15	10 – 15	–	143	2.8	4
Paul Evans	0 – 2.5	0 – 2.5	–	1	0.2	1
Leigh Allen	2.5 – 5 plus 10 – 15 lump sum	15 – 20 plus 55 – 60 lump sum	197	249	0.9	45

*These figures may differ from the closing figures in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

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 pension scheme 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.

Noel Shanahan
Chief Executive and Accounting Officer
25 June 2009

Accounts for 2008-09

Summary of Accounts

Income

The downturn in the economic situation during 2008-09 had a major effect on the Agency's operations with a reduction in income of £27.5m, falling from £679.1m in 2007-08 to **£651.6m** in **2008-09** (Income & Expenditure account). This decrease principally resulted from a downturn in fee earning transaction volumes, in particular that of vehicles first registration which dropped from £141m income in 2007-08 to **£124m** in **2008-09**. The fall in total fee income against Business Plan figures was even more marked, amounting to £54.5m, although £7.3m additional income (DfT reimbursement of Shared Services Centre development costs) helped to offset this fall.

Volumes for vehicles first registration fell from 3m during 2007-08 to **2.5m** in **2008-09** with a further decrease currently forecast for 2009-10. Volumes of transactions for first driver applications and smart tachograph card issuing, both also fee earning transactions, saw significant falls during 2008-09, whilst volumes of transactions which do not bear fees were relatively buoyant and in some categories actually increased. As a significant proportion of the Agency's income is derived from its external activities (Income & surplus/(deficit) on activities note 2) through statutory fee earning activities or commercial activities the economic situation will continue to impact on the Agency's results.

Expenditure

Operating

Total operating expenditure during 2008-09 increased to £566.2m in 2008-09 from £541.8m in 2007-08 (Income & Expenditure account), however, this increase (£24.4m) was £19.5m less than that forecast in the Agency's Business Plan. In response to the economic downturn, the Agency has made every attempt to keep costs as low as possible by re-prioritising projects, scrutinising discretionary expenditure and imposing strict housekeeping rules. The main areas where costs increased (Operating costs note 4) were:

(i) Agent Costs, which relate to those elements of DVLA activities that are outsourced. These areas include IT development, maintenance and delivery services, facilities management, counter services (through Post Office® branches) and wheel clamping services. The increase in Agent Costs for 2008-09 was principally accounted for by the increase in the PFI Estates Unitary Charge, resulting from completion of the programme of refurbishment of the Agency's estates which commenced in 2005.

(ii Management Consultancy costs increased by £6.5m, principally attributable to the introduction in year of Drivers Electronic Services and Operational Excellence initiatives.

Capital

The net book value of the Agency's fixed assets increased from £121m in 2007-08 to £132.2m in 2008-09, an increase of £11.2m (Balance Sheet page 74). Assets capitalised during the financial year were either purchased outright or acquired under the Agency's PFI contract. Tangible Assets capitalised during 2008-09 amounted to £18.5m (note 7) whilst Intangible Assets capitalised amounted to £5.9m (note 6). The Agency's estates were revalued which resulted in an overall upward revaluation of £11.6m.

Statement on Internal Control 2008-09

1. Scope of Responsibilities

1.1 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.

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

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

1.4 Driver licensing in Northern Ireland is a devolved power and is undertaken by a separate executive agency, DVA, sponsored by the Department of the Environment in Northern Ireland (DOENI). However, responsibility for licensing and registering of vehicles and collection of VED in Northern Ireland lies with the DfT Secretary of State. These functions are discharged by DVA, acting through Service Level Agreements managed by DVLA.

2. Purpose of Internal Control Systems

2.1 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.

2.2 The system of internal control has been in place in the Agency for the year ended 31 March 2009 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.

3. Risk Management Approach and Capacity to Handle Risk

3.1 I have appointed the five Directors of the Agency functions to an Executive Board (EB) that I chair, to assist with the 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.

3.2 I am supported by two Non–Executive Directors (previously three until November 2008, when this was reduced in line with MFS policy) who bring ideas and advice from their different experience to bear on Agency issues and have exerted their influence through regular attendance at the EB and the DVLA Audit Committee. The MFS DG and the Director of Transformation, Licensing, Logistics and Sponsorship have helped ensure that sufficient priority was afforded to risks impacting the overall DfT and MFS objectives through attendance at the EB and planning meetings.

3.3 The DVLA capacity to handle the delivery and technology risks at the core of its business is greatly enhanced by our partnering contract with IBM, supported by Fujitsu Services. This PACT (Partners Achieving Change Together) contract is based on partnership and 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.

3.4 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 (CMS). 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.

3.5 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. 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 specifically included:

- the impact of the economic downturn 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;
- the level of compliance for change notifications which is impacting on the level of accuracy of our registers – affecting the service provided to stakeholders.

3.6 All key delivery partner contracts – with Post Office®, NSL Services Ltd (Wheel Clamping), dealers who use our Automated First Registration and Licensing systems and commercial companies that access our data with formal customer consent – have direct access provisions for our Internal Audit teams to review controls in operation and for us to monitor compliance with control levels specified in the access protocols.

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

Programme and Project – identified by Project teams using a PRINCE2 based methodology. These are revised on a regular basis and are overseen by project and programme boards. Project processes and registers conform to HM Treasury Orange Book and Office of Government Commerce (OGC) guidelines on the Management of Risk – all projects and programmes 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;

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

3.8 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.

4. Controls over Change Projects

4.1 Progress monitoring and risk identification is managed at both programme and project levels, with cross programme risks being monitored on a monthly basis by our Centre of Programme and Project Expertise (COPPE), designed to sustain best practice in managing change successfully through the use of programme and project disciplines. COPPE has been accredited by an OGC approved assessor and meets the requirements laid down by OGC.

4.2 EB members are appointed as Senior Responsible Officers with full SRO sponsorship responsibilities to programmes and are held personally responsible for delivery.

4.3 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 study and exploration. Technical aspects are then 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 MFS Investment Appraisal Board for approval if the criteria indicate classification as a Strategic Project.

4.4 All significant projects, in both DVLA and DVA (as DVLA agents in delivering its Vehicles responsibilities in Northern Ireland) are subjected 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.

5. Financial Control

5.1 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. 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, especially in respect of headcount.

5.2 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 have to comply with the DfT Investment Appraisal Framework, incorporating the best practice 5-case business model advocated by OGC and HM Treasury.

5.3 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 the business cases and risk appraisals (updated regularly) indicate this to be appropriate. Tier 1 and 2 projects have their business cases considered and budgets approved, together with monthly progress reporting and monitoring by DfT and MFS Boards respectively. Progress on the Drivers Re-engineering Project (DRP) has been reported through to the cross-Government PSX (E) committee because of its strategic nature and scale.

6. Shared Services Arrangements

6.1 Since April 2007 the DVLA Finance, Payroll and HR transactional support functions have been provided by the DfT Shared Service Centre based in Swansea. This required a migration from the SAP R3 software used by DVLA onto SAP ERP, together with introduction of new processes and controls agreed by all business units.

6.2 As a result, the controls framework and assurance arrangements changed during 2007-08. The migration of DfT in April 2008 further changed the governance, with the Shared Services Customer Board (representing user Accounting Officers) assuming greater responsibility from February 2008, for example receiving Internal Audit (IA) and external assurance reports on SSC controls. The SSC operates controls over transactions in accordance with responsibilities and activities set out in the SLAs with customer organisations. These were agreed but not fully articulated or defined at the point of go live because of constraints on the development time and developing level of understanding, but evolved as DSA/DVLA and SSC refined the original agreed activities. Development continued during 2008-09, including implementation of the recommendations made by internal audit and learning from the first end of year exercise.

6.3 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.

6.4 The DfT Shared Services Director has provided three Assurance Reports during the year on the internal controls operating at the SSC. These demonstrate an improving position during the year and at the year end, a position has been achieved where the internal controls over transactions have reached acceptable levels but need to be maintained and be embedded to deliver the reliability required. There are still weaknesses within the SSC systems, but these have been bolstered by additional DVLA controls and have 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 these controls in-year on behalf of all DfT business units and provided reports to Accounting Officers – both directly and through the Shared Services Board mechanisms.

6.5 The action plan to improve SSC controls agreed at the end of 2007-08 has now been substantially delivered. However, the recognised shortfalls in SSC controls meant that DVLA had to undertake significant additional work in terms of compensating controls, thereby ensuring that the overall level of controls remained appropriate and satisfactory. It has been apparent during the year that specific reconciliations were not undertaken in a timely manner, but these were completed at the year end, without any significant items emerging, so that we have adequate assurance that the accounts themselves can be robustly constructed and that there were no major problems that lay undiscovered during the year. We have agreement with the SSC that these will now be fully undertaken on a timely basis as part of a routine schedule. The level of additional work needed from DVLA has decreased during 2008-09 as SSC controls themselves have improved, but has remained at higher levels than initially planned.

6.6 The emphasis at the SSC in the second half of 2008-09 has been on streamlining process and delivering the transactions handling in a quicker way to enable withdrawal of the workarounds and achievement of targets (e.g. prompt payment and purchase order compliance). Whilst essential for SSC operational efficiency and delivery of benefits these do not of themselves impact on the robustness of the control environment.

6.7 Extensive DVLA data and system testing was undertaken at the point of DfT(c) migration to the SSC in April 2008, with full assurance concluded in terms of the continuity and integrity of DVLA's data and reporting. A similar exercise was undertaken as Highways Agency HR functions went live in April 2009 to ensure integrity of the DVLA data for 2008-09.

6.8 The SSC provides monthly assessments of service levels and issues, discussed with DVLA at monitoring meetings. In addition, there are monthly assessments of controls provided to Information Asset Owners as part of the control processes. Work continues on refining the Service Level Agreements. There are approval processes now in place, supported by the Design Authority, for any changes in process proposed by individual Business Units or SSC themselves to ensure that objectives are still delivered and the control implications assessed and managed.

6.9 Since October 2008 the governance arrangements surrounding the SSC have changed with the Shared Service Customer Board (attended by Accounting Officers of Agencies using the SSC or their representatives) taking over responsibility for the governance of the centre with line responsibility for SSC management passing directly to the DfT Director General for Resources. Staff working at the SSC remain on DVLA contracts of employment and are seconded to DfT.

7. Value for Money

7.1 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. In addition, all procurement and contract management complies with EC 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 rolling programme of reviews and benchmarking based on Better Quality Services (BQS) principles has continued during 2008-09 to confirm that a range of the Agency activities provide value for money to customers and are delivered cost effectively.

8. Data Handling and Security

8.1 DVLA core functions encompass the management and maintenance of its driver and vehicle registers. It is essentially an organisation that is responsible for secure handling and maintenance of two of the largest databases in Government, including data transmission and access control. It undertakes over 110m transactions each year in respect of these databases. It is critically concerned with data security and complies strictly with legislative release provisions, Data Protection Act and Cabinet Office guidelines.

8.2 The majority of our data transfers have been migrated from physical media to secure and encrypted electronic channels through our ELISE project during 2007-08 and 2008-09 – this channel migration will continue until all transfers are electronic. Encrypted CDs remain our only physical transfer media, but we are working with external recipients to move all to fully electronic secure transfer over the next year, though working at their pace of change.

8.3 A large proportion of our interactions with the public still involves paper notifications, reminders and documents. Transferring *bulk data* on paper in this way, we use a secure delivery hub and spoke arrangement to ensure that the risk of loss is minimised.

8.4 During 2008-09, there were 4 breaches of the Data Protection Act involving DVLA staff, although only one of these resulted in disclosure externally and this was of details within a single driver record. The breaches have been notified to the Information Commissioner as required. There is no evidence to suggest that any financial information was released outside the Agency in any of the above incidents, so there is no potential for fraud against customers. The new systems facilities and controls introduced during the year over systems access and changes provide significant improvement in DVLA's ability to monitor and control such access.

8.5 DVLA network is accredited to Government security standards on an annual basis and 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.

8.6 Following the recommendations made in the *Data Handling Procedures in Government* report issued by the Cabinet Office, we have established a new team to focus specifically on information control. The new group, the Information Assurance Group (IAG), has the core task of ensuring 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.

8.7 DVLA has been independently assessed against the Information Assurance Maturity Model and Assessment Framework issued by the Cabinet Office (September 2008). The findings from this review are driving the work of IAG including the quarterly assurance reports that are being issued to the Audit Committee as a regular agenda item. There is also a monthly meeting between the Chief Executive and the Head of Information Security to ensure any issues raised by the assurance and information risk framework are addressed.

8.8 Our aim is to move all of these indicators into the level 3, 4 and 5 areas in 2009-10 which is generally seen as an indicator of best practice. This tool will be maintained and independently verified on a regular basis. 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 made on our systems and network to support accreditation.

8.9 Controls have been introduced during this year to improve security further, specifically all laptops are now encrypted, the use of memory sticks has been banned, and is technically enforced, and information issued on CD to customers is fully encrypted.

8.10 Strategically there has been a major drive to issue/share data, when approved and appropriate, via secure electronic links rather than issue media. The delivery of a strategic solution to enable this has accelerated this activity. 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 the CEO.

8.11 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.

8.12 The completion of major site works at the Swansea HQ has allowed the activation of a layered security approach 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.

9. Review of Controls Effectiveness

9.1 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 (SIC) completed by the DfT Shared Services Director on the completeness and accuracy of processing of the SSC itself
- advice from the independently chaired DVLA Audit Committee
- the annual review programme of work undertaken by Internal Audit
- the review work undertaken by the PPA teams on programmes and projects
- the efficiency conclusions of the BQS review team
- other reports commissioned as reviews of specific control issue areas, notably of process adequacy within the IT security area
- comments made by External Audit in their Management Letter and other reports.

9.2 The EB and Audit Committee assist in these processes and plans to address weaknesses and ensure continuous improvement of the systems are in place. These processes apply to all Agency activities and transactions – being applied to both the Agency business accounts and to the VED Account.

9.3 **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.

9.4 **Internal Audit (IA).** 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 Audit planning process is subject to regular update to ensure focus on the key risks to the Agency.

9.5 IA works to common standards and processes relating to and agreed across the DfT family in respect of audit planning and reporting.

9.6 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 increasing emphasis on information handling risks and Ministerial commitments, IA has increased its visiting programme to significant external users of DVLA data to provide additional assurance that DVLA data and information is utilised and maintained in an appropriate manner.

9.7 **Programme and Project Assurance.** Programme and Project work is assured independently by the Agency's PPA teams, seconded from the COPPE pool of skilled resources. These provide assurance to SROs and EB that Programmes and Projects are being delivered to the highest standards and in accordance with Agency standards and best practice.

9.8 **BQS 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 teams are accredited by the Institute of Management Consultants, working to best practice standards and methodologies.

9.9 IAS, PPA and the BQS teams work within a single integrated structure, as Corporate Assurance Services, to common standards and disciplines. They retain their functional specialisms, drawing on other parts of the Agency through secondments where necessary, but the reporting to Audit Committee increasingly works on an integrated model to provide me with the overall assurance that I need.

10. DVA Control Assurance and Vehicles Responsibilities

10.1 DVA is subject to internal audit review by the Department for Regional Development (DRD) in NI. I draw assurance from the opinion the DRD HIA provides to the DVA Agency Accounting Officer. This is overseen by the DVA Audit Committee chaired by the 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.

11. Head of Internal Audit Opinion

11.1 The overall opinion I have received from my Head of Internal Audit is that she can provide a substantial level of assurance that DVLA's governance, risk management and control arrangements are established and found to be working effectively.

11.2 Where Internal Audit identified needs for control enhancements these were not deemed significant in the context of the overall control environment. Where enhancements needed were identified, corrective action has been agreed and delivery of these actions has contributed to the overall assurance reported within the Statement on Internal Control.

11.3 Areas of weakness were identified again in 2008-09 in relation to controls operated on behalf of DVLA by the DfT SSC, but there is no evidence that these weaknesses have been exploited. Where required, the Agency took additional actions to address these SSC control gaps and limit the risk of material mis-statement of financial statements.

11.4 Controls over access to the Agency's data have been flagged as a matter of priority and public profile. Improvements have been identified and the inspection regime is being strengthened.

11.5 I and my management team have taken all the steps we should to make the auditors aware of information relevant to their audit.

Noel Shanahan
Chief Executive and Accounting Officer
25 June 2009

Statement of the Agency and Chief Executive 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 income and expenditure, recognised gains and losses and cash flows 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* 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, disclose and explain any material departures in the financial statements and prepare the financial statements on a going concern basis.

HM Treasury has appointed the Chief Executive of DVLA as the Accounting Officer for the Agency. 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 Balance Sheet, and a Cash Flow Statement. 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 have regard to the Statement of Principles for Financial Reporting published by the Accounting Standards Board and UK Generally Accepted Accounting Practice, to the extent that these are meaningful and appropriate, 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.

HM Treasury has appointed the Chief Executive of DVLA as the Accounting Officer for the Agency. 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. The 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 Business Account for the year ended 31 March 2009 under the Government Trading Funds Act 1973. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses 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, Chief Executive and auditor

The Driver and Vehicle Licensing Agency (the Agency) and the Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Directors' Report and the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Foreword, Highlights for the Year and the unaudited parts of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of Driver and Vehicle Licensing Agency's affairs as at 31 March 2009 and of its deficit, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information, which comprises the Directors' Report and the Management Commentary included within the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.
I report separately on pages 113 to 118 on the VED Account.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SWIW 9SS
11 July 2009

DVLA Business Accounts for 2008-09

Income and Expenditure Account for the year-ended 31 March 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Income from operations					
Income from activities		437,546		460,686	
Other operating income		214,085		218,430	
Total income from operations	2		651,631		679,116
Expenditure					
Operating costs	4	(380,602)		(361,953)	
Staff costs	3 & 11	(168,292)		(167,488)	
Depreciation, Amortisation and Impairment	6 & 7	(23,489)		(51,266)	
Less: Government Grant Written Off	7 & 13	6,210		38,889	
Total operating expenditure			(566,173)		(541,818)
Operating surplus			85,458		137,298
Surplus payable to Consolidated Fund			(105,043)		(117,815)
Interest receivable and similar income			2,364		6,236
Dividend payable	5		(4,386)		(5,242)
Retained (deficit)/surplus for the year	2		(21,607)		20,477
Retained surpluses brought forward	13		82,684		62,207
Transfer to Govt Grant reserve re prior years	13		(9,035)		0
Retained surpluses carried forward			52,042		82,684

Statement of Total Recognised Gains and Losses

	Note	2009 £000	2008 £000
(Deficit)/surplus for the financial year	2	(21,607)	20,477
Unrealised surplus on revaluation of tangible fixed assets	13	13,717	1,836
Total recognised (losses) and gains relating to the year		(7,890)	22,313

All income and expenditure are derived from continuing operations. Notes forming part of these accounts appear on pages 76 to 102.

Balance Sheet as at 31 March 2009

	Note	31 March 2009 £000	31 March 2009 £000	31 March 2008 £000	31 March 2008 £000
Fixed assets					
Intangible assets	6	47,050		51,668	
Tangible assets	7	85,104		69,388	
			132,154		121,056
Current assets					
Debtors due within one year	8	58,838		83,961	
Cash at bank and in hand	9	41,397		45,769	
		100,235		129,730	
Creditors (amounts falling due within one year)	10	(70,462)		(79,129)	
Net current assets			29,773		50,601
Debtors due after more than one year	8		3,833		6,103
Creditors due after more than one year	10		(32,625)		(25,756)
Provisions for liabilities and charges	11		(15,546)		(19,636)
Net assets			117,589		132,368
Financed by:					
Revenue reserves					
Income & Expenditure Account	13	52,042		82,684	
Capital Reserves					
Public Dividend Capital	13	19,048		19,048	
Government Grant Reserve	13	26,305		24,159	
Revaluation Reserve		20,194		6,477	
	13		117,589		132,368

Notes forming part of the accounts appear on pages 76 to 102.

N. C. Shanahan

Noel Shanahan
Chief Executive and Accounting Officer
25 June 2009

Cash Flow Statement for the 12 months ended 31 March 2009

	Note	31 March 2009 £000	31 March 2008 £000
Operating Activities			
Net cash inflow from operating activities	12	**112,712**	137,028
Return on Investments and Servicing of Finance			
Dividend paid		**(4,742)**	(3,620)
Interest received		**2,364**	6,236
Net cash (outflow)/inflow from return on investments and servicing of finance		**(2,378)**	2,616
Capital Expenditure and Financial Investment			
Payments to acquire intangible fixed assets		**(6,791)**	(19,707)
Payments to acquire tangible fixed assets		**(8,019)**	(10,195)
Net cash (outflow) from capital expenditure and financial investment		**(14,810)**	(29,902)
Net cash inflow before financing		**95,524**	109,742
Financing			
Grant re SSC/SLAs		**11,230**	0
Surplus paid to Consolidated Fund		**(111,126)**	(106,466)
Net cash (outflow) after financing		**(99,896)**	(106,466)
(Decrease)/increase in Cash Balances		**(4,372)**	3,276

Notes forming part of these accounts appear on pages 76 to 102.

Notes to the accounts

Note 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2008-09 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the Financial Reporting Manual follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the Financial Reporting Manual 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. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

Accounting convention

These accounts have been prepared under the historical cost convention, modified to include the revaluation of tangible fixed assets, at their value to the business by reference to their current costs. 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 Accounting Standards Board, so far as these requirements are appropriate.

New accounting standards adopted in the year

The following accounting standards have been adopted in these financial statements for the first time:

FRS 25 Financial Instruments Presentation
FRS 26 Financial Instruments Recognition and Measurement
FRS 29 Financial Instruments Disclosures.

The adoption of these standards has not had a material impact on the financial statements (see note 20).

Changes in accounting policy

During the year, the policy for accounting for income received for the funding of capital expenditure under the Vehicle Excise Duty Service Level Agreement was changed to align more closely with the accounting treatment adopted by DfT for its capital expenditure. Previously, all such income was credited to the income and expenditure account. In the current year this income has been credited to the government grant reserve. The impact on the current year is a reduction of income in the income and expenditure account of £2.8m. The impact of applying the new accounting policy in the financial statements of previous periods would not have significantly altered the reported results and position therefore no prior year adjustment has been made. Instead the cumulative effect of the change in the accounting policy on reserves has been actioned by a transfer from the income and expenditure account reserve to the government grant reserve. Had the current accounting policy been in place in 2007-08, then the impact on the surplus for that year would have been a reduction of £1.1m.

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.

Leases

Operating lease rentals are charged to the income and expenditure account in equal amounts over the lease term. There were no finance leases during the period.

Intangible fixed assets

The value of licences to operate the driver and vehicle systems are 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 does not revalue intangible fixed assets, as the assets do not have a readily ascertainable market value.

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 balance sheet, as it cannot be reasonably estimated.

Tangible fixed assets

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 have been previously revalued every five years on an existing use valuation by appointed Chartered Surveyors. However, it was considered appropriate to undertake a full valuation of the Agency's estates on 31 March 2009 (principally on an existing use valuation but with the use of Depreciated Replacement Cost (DRC) as appropriate), after a four-year interval, prior to the introduction of International Financial Reporting Standards from 1 April 2009 to allow a simple one-stage transition. This coincides with the substantial completion of the estates development and refurbishment programme delivered through the Estates PFI contract with Telereal Trillium. In the intervening years between full valuations a desktop or index linked revaluation is performed using Treasury indices. Office equipment, plant and machinery, computer equipment, motor vehicles and fixtures and fittings are revalued in accordance with price indices published by the Office for 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 Treasury indices. 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.

Depreciation and amortisation

Depreciation is provided on intangible and tangible fixed assets from the date they are commissioned into 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 fixed assets are:

Plant and machinery	3-10 years
Motor vehicles	3 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 2009 are 25 and 40 years with those at Swansea Vale at 36 years.

The valuation by external valuers of the Felinfach premises at Fforestfach at 31 March 2009 was undertaken on a Depreciated Replacement Cost (DRC) basis whereby the component parts will be depreciated over their appropriate lives.

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

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. Fee income from the assignment, transfer and retention of cherished registration marks is recognised on receipt, when the transaction is processed.

Funding for VED Collection and Enforcement activities is now covered by volume related Service Level Agreements (SLAs), managed by DfT on behalf of HM Treasury as recipients of the tax revenue.

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.

Shared Service Centre

The Department for Transport's Shared Service Centre (SSC) based in Swansea was set up following a high profile audit of operations that recommended a number of measures to cut costs and increase productivity. The centre provides a mix of human resources, finance and payroll services to other Business Units within DfT and became operational in April 2007.

The Shared Services income and costs are ring-fenced within the DVLA ledgers. The capital costs of setting up the Shared Service Centre were funded through government grants to DVLA by DfT. In accordance with the Financial Reporting Manual (FReM), the Agency credits grants received as a contribution towards the cost of a fixed asset to a government grant reserve, which is then released to the income and expenditure account over the useful economic life of the asset in amounts equal to the depreciation charge on the asset and any impairment.

The Agency has a Service Level Agreement with DfT to finance the revenue expenditure incurred as part of the set up and development of the Shared Service Centre.

Since October 2008 the governance arrangements surrounding the SSC have changed with the Shared Service Customer Board (attended by Accounting Officers of Agencies using the SSC or their representatives) taking over responsibility for the governance of the centre with line responsibility for SSC management passing directly to the DfT Director General for Resources.

Staff working at the SSC remain on DVLA contracts of employment and are seconded to DfT. Shared Service Centre assets recognised in the Agency's accounts, have been transferred to the Department as at close of play on 31 March 2009 and are now accounted for as part of the DfT balance sheet.

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 provides for the remaining liability within the early departure provision.

As part of the Agency's management restructuring programme, the Agency announced a Voluntary Early Retirement (VER) scheme in 2005-06. The Agency will be responsible in full for the liability to former employees who take early retirement under the VER scheme. The Agency provides for the liability within the VER provision.

Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). 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.

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.

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 Income and Expenditure account 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 fixed asset note. Fixed assets acquired for use in development are depreciated over the expected useful life of the asset.

Government grant reserve

Grants received for capital assets are credited to the government grant reserve, which is released to the income and expenditure account over the expected useful lives of the relevant assets.

PFI contract

On the 4th April 2005, DVLA entered into a 20-year partnership with Telereal Trillium (formerly Land Securities Trillium), 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 income and expenditure account.

As part of the contract, Trillium are carrying out a refurbishment of the Swansea HQ site. Where the work is capital in nature (air conditioning, double-glazing, lifts and specialist cabling), the costs are capitalised as 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 will be depreciated over its expected useful life of 5 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 are depreciated in line with the Agency's depreciation policy. The title for both A Block and the premises at Fforestfach rests with the Agency.

A PFI creditor has been created to reflect the work capitalised. This is released over the life of the contract.

Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash equivalents, and trade and other payables. The Agency does not hold any derivative financial instruments.

- Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.
- Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.
- 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.

Note 2: Income and surplus/(deficit) on activities

This note is to meet HM Treasury disclosure requirements for fees and charges and not for the purpose of SSAP 25, which is not appropriate to the Agency.

Income, Costs and Surplus/(Deficit) by Activities

	2008-09				2007-08			
	Income	Costs	Treasury	Surplus/ (Deficit)	Income	Costs	Treasury	Surplus/ (Deficit)
Activity	£000	£000	£000	£000	£000	£000	£000	£000
Statutory Services – Fees	339,507	(316,112)	(38,450)	(15,055)	356,076	(287,713)	(44,116)	24,247
Sale of Marks	81,593	(15,000)	(66,593)	-	86,948	(14,353)	(72,595)	-
VED Collection (i)	130,157	(130,157)	-	-	133,980	(133,980)	-	-
					3,160	-	-	3,160
Enforcement	83,928	(83,928)	-	-	81,290	(81,290)	-	-
Other SLAs (ii)	16,446	(20,976)	-	(4,530)	17,662	(24,482)	-	(6,820)
Sub Total	651,631	(566,173)	(105,043)	(19,585)	679,116	(541,818)	(116,711)	20,587
Net interest and dividends	-	(2,022)	-	(2,022)	-	994	(1,104)	(110)
Surplus payable to Consolidated Fund	-	(105,043)	105,043	-	-	(117,815)	117,815	-
Total	651,631	(673,238)	-	(21,607)	679,116	(658,639)	-	20,477

(i) Prior to 2008-09, since becoming a Trading Fund in 2004, the portion of the VED Collection SLA income that related to capital expenditure had been accounted for within the total for SLA income. It is now considered that these amounts and the future stream of similar receipts are sufficiently material to justify re-classifying as Government Grant Income and an adjustment of £9.035m (2004-2008) has been made retrospectively to the date of Trading Fund establishment (see Note 13).

(ii) Other SLAs include amounts received from DfT in reimbursement for expenditure incurred by DVLA in running the Shared Service Centre (see Note 21). The Shared Service Programme costs are not shown as income, except to the extent that they represent reimbursement to DVLA of resource costs incurred, with the balance representing DVLA's contribution.

Fine Income (see Note 26)

DVLA collected £49.1m in fine income in 2008-09 (£47.0m 2007-08). £49.1m (£47m 2007-08) was surrendered directly to HM Treasury and does not form part of the Trading Fund income, with the third party costs of collection £2.2m (£0.7m 07-08) deducted at source.

Note 3. Staff costs

The total employment costs of all employees (including Executive Board members) were:

	2008-09	2007-08
	£000	£000
Salaries – DVLA employees	**132,928**	134,026
Salaries – Agency contractors	**1,819**	1,625
Voluntary early retirement (See Note 11)	**2,595**	894
Social security costs	**8,961**	9,157
Other pension costs	**21,989**	21,786
Figure included in I&E Account	**168,292**	167,488
Amounts recharged in respect of staff on secondment to SSC	**(7,931)**	(6,748)
Employment Costs for DVLA Activities	**160,361**	160,740

The average monthly number of employees (full time equivalent) on the Agency payroll from 1 April 2008 to 31 March 2009 was 6,205 split between:

	2008-09	2007-08
Management	**1,566**	1,580
Administrative and support	**4,302**	4,538
Professional and technical	**42**	21
Seasonal staff	**295**	424
Total	**6,205**	6,563
The equivalent numbers for agency contractors were:	91	30

For Executive Board member remuneration, see the Remuneration Report included in Section 3.

Note 4. Operating Costs

	2009 £000	2008 £000
Agent Costs		
Major contracted-out services	**194,780**	198,911
Northern Ireland agency costs (i)	**13,591**	12,019
PFI Estates unitary charge (ii)	**20,295**	12,512
Payments to medical practitioners	**9,107**	9,108
	237,773	232,550
Other Direct Costs		
Postal related expenses	**24,093**	22,921
Stationery and printing	**21,951**	17,185
Publicity and marketing costs	**11,192**	10,366
Maintenance	**9,234**	9,695
IT development support	**16,442**	13,611
Other IT expenditure	**8,692**	6,783
Rates	**8,260**	6,977
Rentals under operating leases	**4,464**	6,957
Travel, subsistence and hospitality	**4,622**	4,697
Telecommunications	**3,760**	4,277
Recruitment	**876**	2,522
Management Consultancy	**12,912**	6,410
Credit Card Charges	**9,334**	7,540
Training	**1,615**	2,074
Other items	**4,775**	5,983
Department for Transport costs	**469**	1,113
Auditors' remuneration (iii)	**138**	292
Total Operating Costs	**380,602**	361,953

(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) PFI Estates Unitary Charge costs have increased by £7.5m reflecting the refurbishment/ new build undertaken to the Agency's estates.

(iii) Auditor's remuneration is solely for the statutory audit and other audit related work. The audit work undertaken includes that for the DVLA business accounts, the VED Account and the IFRS Trigger Point 1 compliance exercise. There is no non-audit work.

Note 5. Dividends and Return on Capital Employed

	2009 £000	2008 £000
3.5% Return on capital employed	4,386	5,242
Dividend Payable	4,386	5,242

The Agency returned a deficit for 2008-09 against a financial target of an average of 3.5% return on capital employed as stated in Annex A of the Annual Report.

Note 6. Intangible assets

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

	Software Licence £000
Cost or Valuation	
At 1 April 2008	141,153
Additions	5,876
Disposals	(33,753)
At 31 March 2009	113,276
Amortisation	
At 1 April 2008	89,485
Provided during the year	10,494
Disposals	(33,753)
At 31 March 2009	66,226
Net Book Value	
At 31 March 2009	47,050
At 1 April 2008	51,668

Intangible additions of £5.9m (2007-08 £15.7m) have been included in respect of software under development which is due to be completed and brought into use in future years. The £33.8m re disposals 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.

Note 7. Tangible assets

	Land and Buildings	PFI	Office Equipment Fixtures and, Fittings	IT Equipment	Plant and Machinery, Motor vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2008 (i)	16,811	26,153	31,117	50,145	7,661	2,125	134,012
Additions	1,710	12,797	2,170	1,773	3		18,453
Transfer	1,898	(1,898)	523	1,585		(2,108)	-
Revaluation	11,252	339	742	(1,243)	342		11,432
Disposals	(54)		(806)	(9,987)	(4)		(10,851)
At 31 March 2009	**31,617**	**37,391**	**33,746**	**42,273**	**8,002**	**17**	**153,046**
Depreciation							
At 1 April 2008	1,242	437	14,483	42,517	5,945		64,624
Provided during the year	486	1,376	4,038	4,183	504		10,587
Transfer	203	(203)					
Revaluation			601	(1,039)	280		(158)
Impairment				281			281
Disposals	(16)		(265)	(7,109)	(2)		(7,392)
At 31 March 2009	**1,915**	**1,610**	**18,857**	**38,833**	**6,727**		**67,942**
Net Book Value							
At 31 March 2009	**29,702**	**35,781**	**14,889**	**3,440**	**1,275**	**17**	**85,104**
At 1 April 2008 (i)	15,569	25,716	16,634	7,628	1,716	2,125	69,388

(i) Cost and Net Book Value at 1st April 2008 has been represented to show Assets Under Construction as a separate category

Valuation of Assets

The Land and Buildings were revalued on 31 March 2009 by Joseph Funtek BSc(Hons) MRICS from Gerald Eve, Chartered Surveyors and Property Consultants, in accordance with the Practice Statements and Guidance Notes set out in the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. With the exception of the Felinfach premises at Fforestfach, the valuation used in the accounts is the Market Value in Existing Use. Due to its particular characteristics the Felinfach premises are valued at Depreciated Replacement Cost (DRC).

The revaluation of the Morriston site was undertaken on a campus wide basis with the exception of F Block (creche) due to the location, separability and specification of the latter. The valuation of the core site (A, C and D) has been attributed on the basis of DRC for the newly commissioned A Block as the most accurate estimate, with the remainder of the value allocated to C and D according to their floor space. The total revaluation gain of £13.7m is proximate to the estimated costs of refurbishment undertaken through the PFI contract.

The core site has been assessed to have a remaining 40-year life, taking into account functional obsolescence in addition to physical obsolescence. F block has been assessed to have a life of 40 years with E and J at 25 years. The Richard Ley Development Centre (RLDC) at Swansea Vale has been assessed to have a 36-year life. As the site at Fforestfach has been valued on a DRC basis, the individual component parts are to be depreciated over their appropriate lives varying between 10 and 40 years.

The net book value of land £4.1m includes Freehold £3.5m and Leasehold £0.6m (RLDC £0.2m (125-year lease) and Fforestfach £0.4m (999-year lease)). The net book value of buildings £28.3m relates to DVLA property, with PFI funded new buildings having a net book value of £33.1m.

The Treasury Building Index was used to revalue specific Fixtures and Fittings assets, which relate to the specialised fit-out of the Richard Ley Development Centre and the Contact Centre.

The losses on revaluation of computer equipment assets (£204,000) and F Block and the RLDC (£1.9m) have been taken to the Income and Expenditure account.

Following the change in the governance of the Shared Service Centre, the assets funded by DfT were transferred to the Department on 31 March 2009 at a Net Book Value of £3.4m (notes 13 and 21).

Analysis of depreciation, amortisation and impairment line in Income and Expenditure Account

	Total	Financed by Govt Grant
	£000	£000
Depreciation of tangible Fixed Assets	10,587	–
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/tangible assets (note 6 & 7)	10,494	6,210
	23,489	**6,210**

Note 8. Debtors

	2009 £000	2008 £000
Debtors: amounts falling due within one year		
Trade debtors	**5,815**	1,485
Other debtors	**211**	221
Public sector debtors	**13,809**	28,054
Prepayments and accrued income	**37,320**	52,734
PFI prepayments	**1,683**	1,467
	58,838	83,961
Debtors: amounts falling due after more than one year		
Prepayments and accrued income	**3,833**	6,103
Total debtors	**62,671**	90,064

Trade Debtors 2008-09 of £5.8m (2007-08 £1.5m) includes £4.9m (2007-08 £0.2m) in relation to Sale of Marks auctions. This amount will, after deduction of costs, be paid over to Treasury during 2009-10.

Included within prepayments is £19.2m (2007-08 £20.6m) in respect of a payment to the Post Office® for services to be provided in 2009-10 plus £9.0m (2007-08 £12.0m) 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 9. Cash at bank and in hand and analysis of net funds

	2009 £000	2008 £000
Balance at start of year	**45,769**	42,493
Net cash (outflow)/inflow in year	**(4,372)**	3,276
Balance at end of year	**41,397**	45,769
Balances at HM Office of Paymaster General (OPG)	**36,725**	41,474
Commercial banks and cash in hand	**4,672**	4,295
Total Cash at bank and in hand	**41,397**	45,769

OPG provides a current account banking service and the balance held of £36.725m (£41.474m 2007-08) includes £15.574m (£21.657m 2007-08) held on behalf of HM Treasury and £4.386m (£5.242m 2007-08) due to DfT, both paid over soon after the year end (see Note 10).

Note 10. Creditors

	2009 £000	2008 £000
Creditors: amounts falling due within one year		
Trade creditors	**15,391**	14,937
Accruals	**32,910**	35,864
Dividend Payable	**4,386**	5,242
Cash balance payable to the Consolidated Fund	**15,574**	21,657
Capital creditors	**2,201**	1,429
	70,462	79,129
Capital creditors due after more than one year	**32,625**	25,756
Total Creditors	**103,087**	104,885

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

PFI Creditor	2009	2008
	£m	**£m**
1 April 2008	**23.9**	1.7
Increase due to assets capitalised	**12.8**	22.8
Release to Income & Expenditure a/c	**(1.9)**	(0.6)
31 March 2009	**34.8**	23.9

Note 11. Provisions for liabilities and charges

	Tax Officers Pensions and Compensation payments (i)	Early Departure Costs (ii)	Voluntary Early Retirement Costs (iii)	Total
	£000	£000	£000	£000
At 1 April 2008	7,151	160	12,325	19,636
Increase in provisions	-	5	2,590	2,595
Provisions utilised	(1,279)	(74)	(5,332)	(6,685)
At 31 March 2009	**5,872**	**91**	**9,583**	**15,546**

(i) 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. These payments are not discounted due to the uncertainty of the timing of the transfer of benefits.
The provision is based on advice from the Government Actuary Department (GAD), which is re-assessed normally every three years.

(ii) The Agency has provided for future annual compensation payments to former employees who have taken early retirement. Compensation is payable from the date of retirement until age 60.

(iii) The Agency has provided for future annual compensation payments to employees who have accepted early retirement under Voluntary Retirement Schemes (VER). Compensation is payable from the date of retirement until age 60. The scheme was introduced in 2005-06 with a further release in 2007-08.

Note 12. Reconciliation of net operating expenditure to net cash flow from operating activities

	2009 £000	2008 £000
Operating surplus	**85,458**	137,298
Adjustment for items not involving the movements of funds:		
Depreciation, amortisation and impairment charge	**23,489**	51,266
Release of Government grant (i)	**(6,210)**	(38,889)
Impairment of in year asset	-	(100)
Movement in working capital		
Decrease/(Increase) in debtors	**18,943**	(23,439)
(Decrease)/Increase in creditors	**(4,878)**	15,260
(Decrease) in provisions	**(4,090)**	(4,368)
Net cash inflow from operating activities	**112,712**	137,028

Note (i) The release of Government Grant in 2007-08 was exceptionally high due to the recognition of impairment of Shared Service Centre intangible assets.

Note 13. Movements in Capital and Reserves

	Public Dividend Capital £000	Government Grant Reserve £000	Revaluation Reserve £000	Retained Surplus £000	Total £000
At 1 April 2008	19,048	24,159	6,477	82,684	132,368
Movement in the year					
Transfer to Govt Grant reserve re prior years (i)	-	9,035	-	(9,035)	-
Revaluation of fixed assets	-	-	13,717	-	13,717
Released during year	-	(6,210)	-	-	(6,210)
Release – SSC Asset Transfer	-	(3,459)	-	-	(3,459)
Deficit for the year	-	-	-	(21,607)	(21,607)
Grant received	-	2,780	-	-	2,780
At 31 March 2009	19,048	26,305	20,194	52,042	117,589

(i) During 2008-09 the Agency has 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 is 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 represents the depreciated value of the assets funded and is apportioned as follows – 2004-05 £5.4m, 2005-06 £1.4m, 2006-07 £1.1m and 2007-08 £1.135m.

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

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.

The movement in Retained Surplus reflects the reclassification of SLA income (as above) and the deficit for the year resulting from the downturn in the volume of the Agency's fee earning transactions.

Note 14. Commitments

	2009 £000	2008 £000
Capital Commitments within one year	**2,414**	3,080

Note 15. PFI

	2009 £000	2008 £000
PFI Financial commitments for 2009-2010		
Contact expiry dates within one year	-	-
Contract expiry dates between one and five years	-	-
Contract expiry dates beyond five years	**21,054**	19,234
	21,054	19,234

Note 16. Operating leases

Commitments due on existing operating leases in 2009-2010:

	2009	2008
	£000	£000
Land and Buildings		
Lease expiry dates within one year	**415**	668
Lease expiry dates between one and five years	**1,999**	1,694
Leases with expiry dates beyond five years	**3,776**	3,565
	6,190	5,927

	2009	2008
	£000	£000
Other		
Lease expiry dates within one year	**34**	49
Lease expiry dates between one and five years	**83**	130
Leases with expiry dates beyond five years	**-**	-
	117	179

Note 17. Related parties

DVLA is a Trading Fund sponsored by the Motoring & Freight Services Group (MFS) of the DfT.

DfT is regarded as a related party. During the year, the Agency had various material transactions with DfT and with other Trading Funds for which DfT is the sponsor department (Driving Standards Agency and Vehicle & Operator Services Agency).

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 Driving Standards Agency, DfT, UK Borders Agency 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 18. Losses and abandoned enforcement cases

	2009 Number of cases	2009	2008 Number of cases	2008
	£000	£000	£000	£000
Losses written off in year	**1,093**	**63**	10,574	60

These are cash losses due to abandoned claims for payments from customers.

Abandoned enforcement cases	**126,769**	**5,042**	115,970	4,945

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.

Special Payments				
Ex-gratia payments	**1,351**	**102**	1,636	162

Constructive Loss

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, although already expensed, would not now contribute to the solution to be delivered.

The VINI project was initiated in 2004 with the intention of moving the NI Vehicles Register onto the DVLA systems, potentially providing significant savings. The plans for implementation were to deliver this convergence during the financial year 2008-09 and a total of £7.5m was spent on design, specification and planning for the systems changes and migration. However, the pre-Budget statement in October 2007 introduced significant changes in VED structures and rates, needing major changes to the DVLA vehicles systems, with commencement of the Continuous Insurance Enforcement (CIE) initiative also planned for 2009-10. The risks of trying to undertake all three were assessed and it was jointly decided with DfT that the VINI project should be delayed to ensure safe delivery of the other two major changes. As a result, the delivery of systems convergence is unlikely before 2012 and it is currently unclear as to exactly how much rework will be needed before implementation can be commenced. The extent of the rework will determine the extent of the expenditure already incurred that proves to be considered a constructive loss.

Note 19. 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).

Classic scheme

Benefits 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. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at the rate of half the members' pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Premium scheme

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 commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and provides a service enhancement on computing the spouse's pension. The enhancement depends on length in service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic plus scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic. Pensions payable under classic, premium and classic plus are increased in line with the Retail Prices Index.

The PCSPS is an unfunded multi employer defined benefit scheme, but the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out by scheme actuaries Hewitt Associates at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office. For 2008-09, normal employer contributions of £21,988,757 were payable to the PCSPS to date (2007-08 £21,793,274) at an average rate of 18.44% (2007-08 18.21%). Rates will remain the same next year subject to changes of the salary bands. The average pension contribution rate had risen because of the change in staff mix. The Government Actuary reviews employer contribution rates normally every four years following a scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme.

Partnership pension account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do contribute, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute to a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Note 20. Financial Instruments Disclosures

The fair values of the Agency's financial assets and liabilities as at 31 March 2009 are shown below. Due to the short-term nature of the financial instruments held, carrying value is considered to represent the fair values.

There has been no impact on the Agency's Balance Sheet or Income and Expenditure statement arising from FRS25 and FRS26. In particular 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	2008
	£000	£000
Financial Assets		
Cash and cash equivalents (note 9)	**41,397**	45,769
Loans and receivables		
- Trade debtors	**5,815**	1,485
- Other debtors	**211**	221
- Public sector debtors	**13,809**	28,054
- Accrued income	**12,811**	22,465
Total loans and receivables	**32,646**	52,225
Total financial assets	**74,043**	97,994
Financial liabilities		
Trade and other payables (note 22)		
- Trade creditors	**15,391**	14,937
- Accruals	**34,072**	35,864
- Dividend payable	**4,357**	5,242
- Cash balance payable to the Consolidated Fund	**15,574**	21,657
Total financial liabilities	**69,394**	77,700

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 60).

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 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).

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.

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.

Market Risk

Interest rates

The Agency is 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 Income and Expenditure account.

Foreign exchange rates

Financial assets and liabilities are generated by day-to-day operational activities and foreign currency is not held to manage the risks facing the Agency in undertaking its activities.

Note 21. Shared Service Centre

The DfT Shared Service Centre (SSC) is based in Swansea and was set up during 2006-07. The SSC provides a range of human resources, finance and payroll services to the DfT and a number of its Agencies, including the DVLA.

The SSC has been operational for DVLA and DSA since April 2007 and started to provide a live service to the Central Department (DfT(c)) during April 2008. In January 2009 VCA migrated onto the payroll system. The DfT Board deferred MCA and HA migration, with HA now live on the payroll and employee services functions since April 2009. MCA is scheduled to go live with all services in April 2010.

Throughout 2008-09 DVLA has taken the lead on maintaining the accounting records for the SSC. Accommodation and IT services remain delivered through DVLA contracts, and staff working at the SSC remain on DVLA contracts of employment. In this year, as in the prior year, revenue and capital costs were ring-fenced within the DVLA ledgers, with the DVLA receiving funding from the Department or user Agencies via Service Level Agreements. A summary of this information is shown in the table overleaf.

From its inception through to October 2008 the Shared Services Centre operated as a directorate of DVLA. Since October 2008 the governance arrangements surrounding the SSC have changed with the Shared Service Customer Board (attended by Accounting Officers of Agencies using the SSC or their representatives) taking over responsibility for the governance of the centre with line responsibility for SSC management passing directly to the DfT Director General for Resources.

Moving forward the intention is for the governance and reporting framework to be specifically overseen by the Shared Services Customer Board or an evolution of such a Board.

At 31 March 2008 SSC assets were recognised in the Agency's accounts. As part of the changes in governance referred to above, these were transferred to the DfT on 31 March 2009. Given that the governance arrangements continued to evolve throughout 2008-09, the income and expenditure associated with the Shared Services Centre has been accounted for on a consistent basis with the 2007-08 accounts in the Department for Transport, DVLA and DSA. The accounting treatment for reporting the shared service costs will be reviewed in the context of the new governance arrangements, when finalised.

The net cost to DVLA for the services it received from SSC during the year was £4.497m (2008 £3m).

Memorandum Income and Expenditure Account

	Note	2009 £000	2008 £000
Operations			
Income			
DVLA – SSC live running recharge	1	4,497	3,000
DSA – SSC live running recharge		1,865	1,500
DfT – SSC live running recharge		1,474	
DfT – Deficit funding during DfT Family migration	2	5,797	7,284
DfT – Capital depreciation cover (DEL Non-cash)		932	4,349
		14,565	16,133
SSC Running Costs			
Salaries		6,454	5,234
IT Running Costs		4,902	4,483
SSC Overhead Admin Costs		1,460	1,068
Other costs (incl. estates, support & corporate assurance)		817	999
Depreciation		932	4,349
	3	14,565	16,133
DfT SS Programme Costs			
Income			
DfT – SSC Programme development reimbursement		7,310	8,878
DfT – Capital Grant received		0	10,368
		7,310	19,246
Costs			
Salaries for Shared Service Transformation Programme staff		1,201	1,849
Systems development external costs		4,587	19,784
Other		1,555	1,433
		7,343	23,066

Notes

1. DVLA transaction support functions are covered through cross-charging within DVLA accounts.
2. DfT are invoiced by DVLA on an agreed basis to cover the elements of planned spare capacity in advance of take on of the other business units and agreed in advance to ensure that DVLA, DSA and VCA cover only the apportioned real charges of service delivery.
3. The costs are all included within the overall DVLA costs (hence appear within the costs in Note 2) and segregated within the ledgers through cost centre analysis.

At 31 March 2009 the SSC assets in the Agency's accounts funded by DfT were transferred to the Department as below:

	SSC Fit Out £m	Hardware £m	Software licences £m	Total £m
Total assets purchase funded by DfT	0.5	5.3	33.8	39.6
Net Book Value at 31.03.09 After depreciation/revaluation	0.4	3.0	-	3.4
Transfer to DfT at 31.03.09	(0.4)	(3.0)	-	(3.4)
NBV in DVLA Year End Balance Sheet	-	-	-	-

Note 22. Motor Vehicle Licence Savings Stamps

For a number of years DVLA ran a Motor Vehicle Licence (MVL) Savings Stamps scheme whereby customers could purchase savings stamps at the Post Office® and use them to redeem against payment for vehicle excise duty or for cash. The Post Office® held the cash funds representing unredeemed stamps held by members of the public in a specially designated account. In 2004, the Post Office® announced the introduction of its own wider savings stamps scheme. To coincide with this, DVLA announced that the issue of MVL Savings Stamps would cease on 31 March 2005. During 2005-06, the Post Office® continued to honour stamps presented for payment of 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 2009 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 Balance Sheet presented on page 74.

Note 23. Intra-government balances

Balances with:	**2009 £000 Debtors**	**2009 £000 Creditors**	2008 £000 Debtors	2008 £000 Creditors
Central government bodies	**23,286**	**20,103**	44,107	26,569
Local authorities	**25**	**-**	97	-
Public corporations and other trading funds	**19,282**	**-**	22,153	-
Total Intra-government balances	**42,593**	**20,103**	66,357	26,569

Note 24. Contingent Liabilities

At March 2009, there is one contingent liability to note: DVLA has agreements with IBM in terms of future service payments for new systems developments that could crystallise if the contract is not renewed in September 2012. At the end of the financial year, the total exposure was approximately £16.1m (2007-08 £15.2m), of which the exposure post September 2012 is £0.4m (2007-08 nil).

Note 25. Post Balance Sheet Event

There have been no events since the balance sheet date that impact on the understanding of these financial statements. The financial statements were authorised for issue on **11 July 2009**.

Note 26. Fine Income Remitted to HM Treasury

Until DVLA became a Trading Fund, the DfT arrangements with HM Treasury allowed DfT to retain fines to offset against the costs of VED enforcement. DVLA reported on these fines through its accounts, which were then consolidated at DfT level. At 1 April 2004, on becoming a Trading Fund, the treatment changed and DVLA excluded these amounts from its own accounts, but these were reported through DfT. At that point, the Continuous Registration (CR) fines were also included as a result of a DfT netting-off agreement negotiated with HM Treasury. Before the start of the 2007-08 financial year, these arrangements were changed, so that the DfT settlement was increased and all fines are now remitted directly to HM Treasury. DVLA accounts do not need restating to reflect this change in arrangement (current or prior year), but for completeness of disclosure DVLA is now including the relevant amounts into the notes to its accounts.

Source	Fine Income in £m 2008-09	Fine Income in £m 2007-08
CR Fine Income	**23.0**	26.3
Traditional Enforcement	**11.1**	11.4
Wheelclamping	**7.9**	7.3
Debt Collectors	**7.1**	2.0
Total	**49.1**	47.0

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 2008-09	£m
Total amount collected	**9.3**
Commission paid to Debt Collectors	**(2.2)**
Amount transferred to Treasury	**7.1**

As at 31 March 2009, DVLA held cash totalling £9.2m in respect of fine income collected on behalf of HM Treasury. This cash has not been included in the cash balance reported in these accounts and has been excluded also from the creditor due to HM Treasury. 2008-09 is the first year for the operation of this accounting treatment for fine income.

Note 27. 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), Area Enforcement Centres (AEC) 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 (CFER) 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.

	£m
Open LLP cases @ 01.04.08	**11.1**
LLP issues	**73.3**
LLP Collected – DVLA	**(20.0)**
LLP Collected – Agents (gross)	**(9.3)**
Cases Written Off	**(45.9)**
Open LLP cases @ 31.03.09	**9.2**

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

I certify that I have audited the Vehicle Excise Duty (VED) Account for the year ended 31 March 2009 under Section 2 of the Exchequer and Audit Departments Act 1921. These comprise the Statement of Revenue and Expenditure, Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Driver and Vehicle Licensing Agency, the Chief Executive and auditor

The Driver and Vehicle Licensing Agency (the Agency) and the Chief Executive as Accounting Officer are responsible for preparing the Annual Report and the financial statements in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, including section 2(3) of the Exchequer and Audit Departments Act 1921, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions made thereunder. I report to you whether in my opinion, the information related to the VED Account given in the Annual Report, which comprises, the Management Commentary, is consistent with the financial statements. I also report whether, 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.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report related to the VED Account and consider whether it is consistent with the audited financial statements. This other information comprises the Chief Executive's Foreword, Highlights for the Year and the Director's Report. I consider the implications for my opinion and report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by HM Treasury, of the state of the Driver and Vehicle Licensing Agency's affairs as at 31 March 2009 in respect of the revenue and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by HM Treasury; and
- Information, which comprises the Management Commentary, included within the Annual Report is consistent with the financial statements.

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.

Report

My report on the VED Account is at pages 113 to 118.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SWIW 9SS
11 July 2009

VED ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

Statement of Revenue and Expenditure for the year ended 31 March 2009

	Notes	**2009**	2008
		£ million	£ million
Revenue			
Vehicle Excise Duty raised	2	**5,543**	5,269
Total Revenue		**5,543**	5,269
Expenditure			
Payments to HM Revenue and Customs	3	**(3)**	(3)
Amounts written off	4	**(2)**	(2)
Total Expenditure		**(5)**	(5)
Net Revenue for the Consolidated Fund		**5,538**	**5,264**

The notes on pages 108 to 112 form part of this account

Balance Sheet as at 31 March 2009

	Notes	**31 March 2009 £ million**	31 March 2008 £ million
Current Assets			
Debtors	5	**2**	2
Cash at bank, in hand and in transit	6	**47**	35
Total Current Assets		**49**	37
Current Liabilities			
Deferred income	7	**(2,509)**	(2,469)
Creditors	7	**(11)**	(12)
Total Current Liabilities		**(2,520)**	(2,481)
Total Net Liabilities		**(2,471)**	(2,444)
Represented by:			
Balance on Consolidated Fund Account as at 31 March	9	**(2,471)**	(2,444)

The notes on pages 108 to 112 form part of this account

N.C. Shanahan

Noel Shanahan
Chief Executive and Accounting Officer
25 June 2009

Cash Flow Statement for the year ended 31 March 2009

	2009 £ million	2008 £ million
Net Funds as at 1 April	35	18
Net Revenue for the Consolidated Fund	5,538	5,264
Increase in Liabilities	39	150
Net Cash Flow from Revenue Activities	5,577	5,414
Cash Paid to Consolidated Fund	(5,565)	(5,397)
Increase in Cash in this period	12	17
Net Funds as at 31 March	47	35

The notes at pages 108 to 112 form part of this account

Notes to the VED Account

Note 1. Statement of Accounting Policies

1.1 Basis of Accounting

The Vehicle Excise Duty 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 Accounting Standards Board's Statement of Principles. Other accounting policies comply with UK Generally Accepted Accounting Practice (UK GAAP) 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 Business Accounts (see pages 73 to 102) and are covered by its related accounting policies:

a. Fines and Penalties
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, at pages 50 to 51.

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.

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®, Automated First Registration & Licensing (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 2009-10. The value of refund for 2008-09 is set out in note 2.

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

	2009	2008
	£ million	£ million
Over the counter		
Post Office®	3,232	3,469
Local Offices	381	396
Sub Total	3,613	3,865
Electronically		
Electronic Vehicle Licensing	1,752	1,232
Motor Manufacturing	305	319
Fleet Operators	120	101
Telephone Relicensing	1	1
Sub Total	2,178	1,653
Amounts refunded	(248)	(249)
Total	5,543	5,269

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 pages 47 to 49 for further details).

Note 3. Payments to HM Revenue and Customs

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 of 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 2008-09 DVLA made payments to HMRC of £2.818m (£2.541m in 2007-08).

Note 4. Amounts Written Off

	2009	2008
	£ million	£ million
Amounts written off:	**2**	2
	2	2

Amounts written off include:

£0.514m for cases where the Agency is unable to trace the offender (£0.694m in 2007-08); £0.986m for cases of successful prosecutions in court where the revenues were collected by the Home Office (£0.890m in 2007-08); and £0.674m where the applicant returned the VED licence disc and this was voided (cancelled) (£0.445m in 2007-08).

A provision of 11% is made for doubtful dishonoured cheque cases based on previous trends, resulting in a movement of £0.028m charge in 2008-09 (£0.174m release in 2007-08).

Note 5. Debtors

	2009 £ million	2008 £ million
Motor Trade Debtors and Other Debtors	**2**	2
	2	2

Debtors include:

Motor trade debtors (AFRL dealers) for 2008-09 were nil (nil in 2007-08);

Other debtors include dishonoured cheque debtors of £2.0m (£2.0m in 2007-08), which are shown net of a provision for doubtful debts; and other sundry debtors of £0.072m (£0.061m in 2007-08).

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

Note 6. Cash at bank, in hand and in transit

	2009 £ million	2008 £ million
Cash at bank, in hand and in transit	**47**	35
	47	35

The cash at bank balances are mainly held at OPG with the remainder at commercial banks.

Note 7. Creditors

	2009 £ million	2008 £ million
Deferred Income	**2,509**	2,469
Motor Trade Creditors	**11**	12
	2,520	2,481

Motor trade creditors are where customers hold pre-payment accounts, or payments have been made but the service has not yet been provided.

Vehicle Excise Duty is paid in advance. The deferred income balance relates to income received in 2008-09 for Vehicle Excise Duty which relates to 2009-10.

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 2008-09.

Exempt Category	PLG	HGV	Others	Total 2008-09	Total 2007-08
	£m	£m	£m	**£m**	£m
Vehicles exempt from holding a VED licence *	14	2	10	**26**	31
Vehicles issued with a nil value licence **	218	8	10	**236**	235
Former Special Concessionary Group ***	19	49	4	**72**	48
Total	251	59	24	**334**	314

* - These include ambulances, fire engines and crown vehicles

** - These include disabled vehicles and historic vehicles

*** - These include agricultural vehicles

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 2008-09 was 1.6m, (1.6m in 2007-08).

Vehicles held in the trade and vehicles registered as SORN are not liable to VED.

Note 9. Balance on Consolidated Fund Account

	2009 £ million	2008 £ million
Balance as at 1 April 2008	**(2,444)**	(2,311)
Net revenue for the Consolidated Fund	**5,538**	5,264
Less amount paid to Consolidated Fund	**(5,565)**	(5,397)
Balance on the Consolidated Fund Account as at 31 March 2009	**(2,471)**	(2,444)

Vehicle Excise Duty 2008-09 Accounts

The Comptroller and Auditor General's Report

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 2008-09, £5.5 billion (2007-08: £5.3 billion) of revenue was collected by the Agency as reported in the VED Account.

Summary of Main Findings and Conclusions

2. Whilst recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, I can confirm, as required by Section 2 of the Exchequer & Audit Department Act 1921 and based on the work carried out by my staff, that the Agency has framed adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of VED and that they were being duly carried out.

3. In respect of 2008, for collection of VED in Great Britain, the Department for Transport (the Department) has estimated that VED was evaded on 1.0 per cent of vehicles (2007: 1.7 per cent) with a loss of around £50m[1] or 0.9 per cent by value (2007: £79m; 1.5 per cent)[2]. This indicates that the Agency has a robust system for the collection of VED revenue.

4. The Department improved the methodology used for the 2007 and 2008 Roadside Surveys, to estimate the level of evasion, compared with that used in 2006. But there is room for further improvement and the Department should keep the methodology under constant review to ensure that underlying assumptions remain valid. Despite the relatively small amount of VED collected in Northern Ireland, the Department should consider whether it is possible to reconfigure their data collection to allow a more complete picture to be provided of VED evasion[2].

5. The Agency is trialling reminders to target the problem of "soft" evasion[3] of one or two months' tax. Early signs indicate that this approach is worthwhile and should be continued.

6. There is a risk that compliance will decrease in the coming financial year as the increase in VED rates takes effect and vehicle owners are increasingly affected by the difficult economic environment. I welcome the work being undertaken by the Agency to mitigate this risk.

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[1] The Transport Statistics Bulletin: *Vehicle Excise Duty Evasion 2008* cited a loss of revenue of £49 million of revenue based on income in 2007-08. The percentage evasion rates and patterns of evasion found, when applied to 2008-09 income, indicate a loss of revenue of £50 million.

[2] The figures in this report relate to GB VED only. £162.6 million (2.9%) of revenue was collected in Northern Ireland where the estimate of evasion rates is 2.6%. Because of statistical uncertainties, these figures are not included in the above estimates.

[3] "Soft" evaders are those who evade, often unintentionally, for short periods before returning to compliance. "Hard" evaders are those who evade deliberately and often persistently.

Ensuring collection of VED

7. Each year the Department for Transport carries out a Roadside Survey to estimate the level of compliance for VED. The 2008 Survey, carried out in June 2008, indicated that, if the results were typical of the level of compliance throughout the 2008-09 financial year, the Agency collected 99.1%[4] of VED payable.

8. The Roadside Survey is the best available evidence of the effectiveness of the Agency's procedures for the collection of VED and provides strong assurance that it has effective procedures for the collection of VED. My staff carried out a review of the 2008 Roadside Survey and concluded that it was sufficiently robust to provide an accurate indication of the level of compliance. More detail on the Roadside Survey is provided in paragraphs 14 to 23 below.

9. In addition to reviewing the Roadside Survey, my staff examined the governance arrangements and the processes for VED collection, recording and payment to the Exchequer.

Governance

10. 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.

11. The Agency has recently formed a tactical group to evaluate data on evasion trends and use this information to improve compliance and enforcement action. The results of this activity remain to be seen, but I welcome this initiative, particularly in the current economic climate.

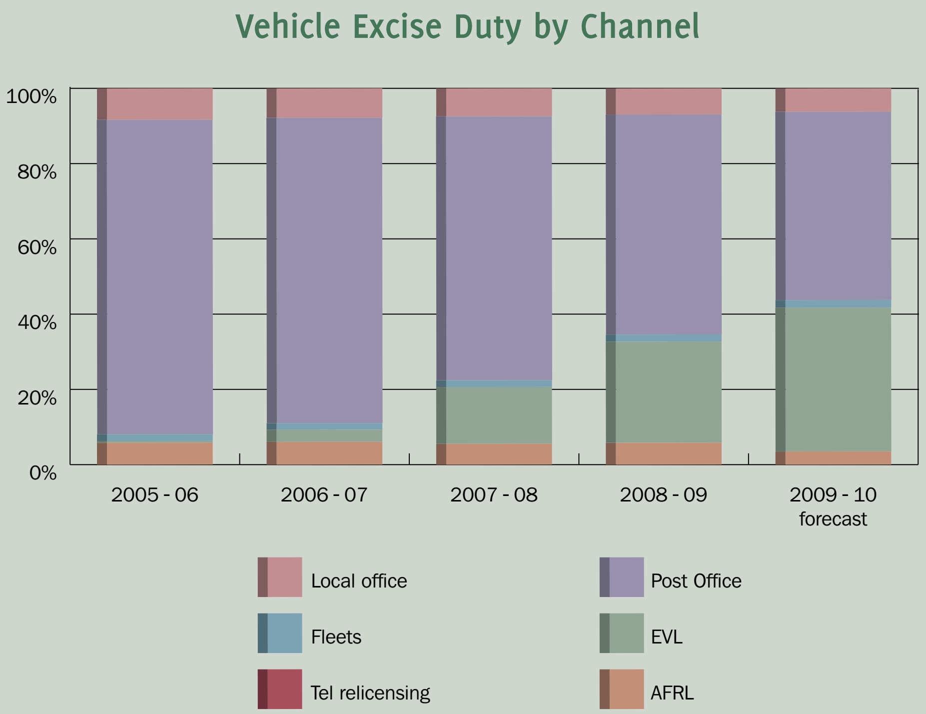
Processes for the Collection of VED

12. To support my opinion on the VED Account, my staff have examined the systems of internal control over assessment, collection, allocation and refunds of VED. My staff found that the systems were adequate for these purposes. They also found that there were appropriate controls to confirm the completeness of processing of all receipts and surrender of amounts collected to the Exchequer.

13. VED is collected in several ways – through the Post Office®, online electronic vehicle licensing (EVL), local offices and specific arrangements for car dealerships and vehicle fleets.

[4] All estimates are subject to statistical uncertainty. The 95% confidence intervals for tax evaded are 0.8% to 1.0% equivalent to £43 million to £55 million by value. This indicates a collection rate of between 99.0% and 99.2%

Figure 1: Collection of duty by payment method, 2005-06 to 2008-09



Source: DVLA records

The 2008 Roadside Survey

14. To assess the effectiveness of the Agency's processes for collecting VED, the Department carries out an annual roadside survey to provide an estimate of the extent of VED compliance. This estimate indicated a collection rate of 99.1%[5] (2007: 98.5%).

15. The 2008 Roadside Survey in June 2008 covered over 1.5m vehicles, observed at 256 sites across Great Britain and Northern Ireland. The number plates of these vehicles were read and matched to the Agency's vehicles database. The Department used this information to estimate the level of evasion by vehicle owners and the value of VED not collected. The Department published the results of the Survey in the Transport Statistics Bulletin: *Vehicle Excise Duty Evasion 2008* in December 2008.

16. The roadside survey is the best available estimate of VED evasion providing a high level measure of whether the Agency has been effective in ensuring the efficient collection of VED. The high level findings were that:

- evasion in the vehicles using roads in the UK was estimated at 1.0 per cent in 2008, down from 1.7 per cent in 2007; and
- evasion by value was estimated at 0.9 per cent in 2008-09, equivalent to around £50 million – a decrease from the estimate of £79m (1.5 per cent) for 2007-08.

17. The key improvement in the 2007 Roadside Survey was the extended use of automatic number plate recognition (ANPR) technology, which reduced the misreadings of number plates which had led to overstatements of untaxed vehicles, most importantly motorcycles. Quality assurance procedures were also improved and the 2007 methodology continued in the 2008 survey. Compliance rates for 2007 and 2008 are therefore comparable, but not with statistics for previous years.

[5] All estimates are subject to statistical uncertainty. The 95% confidence intervals for tax evaded are 0.8% to 1.0% equivalent to £43 million to £55 million by value. This indicates a collection rate of between 99.0% and 99.2%

18. In April 2007, the Department also engaged Southampton University to review the revised (2007) methodology. The review focussed on the statistical foundation for the calculation of the evasion estimate and concluded that the methodology was sound but relied on some important assumptions. The Southampton team concluded that these assumptions were justified, but they highlighted areas where further work would be beneficial. The Department has not yet pursued these areas as it has been concentrating on the impact of misreads.

19. The number plates of motorcycles are still recorded manually due to difficulties in using ANPR technology. In addition, the Department experienced problems in data collection for motorcycles during the 2008 survey and the data for only 158 of the 256 locations were used to generate the estimates of evasion rates.

20. As a result of the decreased accuracy of manual data collection and the reduced number of sites providing reliable data, the evasion estimate for motorcycles is less certain than for other vehicle types. However, the estimated amount of VED lost due to evading motorcycles is small at £2 million or 4.5% of the total estimated lost revenue. Motorcycle evasion rates would not, therefore, be expected to have a significant impact on the overall estimate of lost revenue.

21. The 2008 Roadside Survey included collection of data at 20 sites in Northern Ireland which contributed 82,958 (5.4%) of the total 1,528,955 sightings used to generate estimates. The level of evasion for Northern Ireland was estimated to be around 2.6% but, due to the small sample size, Northern Ireland estimates cannot under the present methodology, be calculated to a sufficient level of detail to be included in the overall estimates.

22. My staff reviewed the Roadside Survey methodology and the findings of Southampton University, highlighting similar areas where the Department should perform more work. I therefore recommend that the Department should:

    (a) revisit the assumptions implicit in the evasion calculation, as identified by the Southampton team;

    (b) keep the sampling design under review to ensure that it continues to provide a representative sample;

    (c) concentrate on improving ANPR technology to capture motorcycle data; and

    (d) consider whether it is possible to reconfigure their data collection for Northern Ireland to enable inclusion in future years' overall estimates.

23. Whilst the Department's annual Roadside Survey remains the most extensive and statistically sound method for assessing compliance in the payment of VED, the Agency also collects more targeted data as part of its enforcement activity. I welcome the Agency's investigation of ways to use its own ANPR data to estimate evasion which it could use to check the Roadside Survey estimates.

Database Accuracy

24. The accuracy of the database of vehicle registrations is critical for the Agency. Inaccuracies in the database undermine both the Agency's ability to ensure collection of all tax due from vehicle owners and the usefulness of the data to other key stakeholders such as the police. Inaccuracies could also undermine the validity of the Roadside Survey evasion estimates.

25. The Agency performs a biannual accuracy survey; the most recent, in 2007, found the following accuracy rates:

- Taxation class: 99.2%;
- Postcode: 93.0%;
- Address (excluding postcode): 92.5%;
- Surname: 98.4%; and
- Forename: 98.2%.

26. In 2008, the Agency additionally performed a traceability survey to establish what proportion of vehicle owners can be found from the information in the vehicles database. The result showed that 95.7% of vehicle owners were traceable, exceeding the Secretary of State target of 95%.

Month skipping

27. 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, "month skipping". The Agency estimated for September 2007 that some 67,000 people abused the system in this way. If that was a typical month, VED evaded in this way could amount to over £10 million per year.

28. 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. This exercise is intended to reduce the number of "soft" evaders and to assist the forgetful or disorganised motorist back into compliance. If successful, it will reduce the number of late licensing penalties and the volume of costly enforcement cases.

29. The initial trial tested the effectiveness of a range of differing letter formats and used a total sample of 78,000 recipients. The Agency is building on the positive results of the February exercise and sent reminders to 140,000 keepers of unlicensed vehicles in May and June 2009. The results will provide comprehensive data, including a detailed assessment of the costs and benefits, to help the Agency to decide whether reminder letters should become a permanent feature of its VED compliance strategy.

Future Developments

30. The low evasion rate identified by the 2008 Roadside Survey indicates that the Agency has achieved a high level of compliance. Its approach focuses on compliance, i.e. ensuring that motorists voluntarily comply with VED regulations through promoting vehicle licensing and raising awareness of the consequences, including penalties, of non-compliance.

31. During 2008, the Agency reviewed its compliance and enforcement approaches, taking into account the high rate of compliance but recognising that there was no room for complacency. The revised strategy recognised the risk of a reduction in VED compliance due to the changing economic environment. The high cost of fuel and other financial pressures were acknowledged as factors which might increase VED evasion through more motorists seeking to avoid one or two months' duty or to remain unlicensed altogether.

32. As a result of the review, the VED Governance Board agreed a number of initiatives, including:

- improved management information and insight into customer motivations, to understand the barriers to compliance and the reasons for non-compliance;
- closer monitoring of changes in trends, by evasion type and by geographical region to facilitate the Agency's use of the most effective compliance and enforcement measures in a more targeted and flexible way;
- continued promotion of the use of the Electronic Vehicle Licensing system, increasing the ease of compliance;
- a consistent publicity message to warn against the consequences of failing to licence a vehicle and adjusting this message to raise awareness of electronic re-licensing channels;
- doubling the number of unlicensed vehicles being wheel clamped and impounded, to raise the profile of the consequences of non-compliance as a deterrent for would-be evaders;
- better ANPR equipment generating a more accurate read rate, in higher volumes and providing a high visibility deterrent; and
- extended use of debt collection for unpaid late licensing penalties, to raise awareness of the commitment of the Agency to the collection of VED.

33. It is still too early to determine what the effect, if any, the change in the economic climate will have. But I welcome the Agency's initiatives to consolidate the current compliance rates and to be prepared for whatever consequences the economic downturn may have.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SWIW 9SS
11 July 2009

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
25 April 2006

Appendix

Commentary on Sustainability Performance

Purpose

1. As part of its sustainable development strategy DVLA has chosen to disclose its environmental sustainability performance via the annual report and accounts. This report on total finite resource consumption, green house gas emission and waste production 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, SDiG 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.

   This year we are showing the previous 2 years performance and a target figure for 2009-10. We will develop the report over the coming years to include 3 years historic data and our performance on some of the wider aspects of sustainability.

Summary of performance

2.

Area	Figure 2008-09	Target Performance* 2009-10
Carbon dioxide emissions from buildings	17,019 tonnes	15,500 tonnes
Carbon dioxide emissions from road travel	840 tonnes	790 tonnes
Carbon saving expenditure	£154,000	
Total waste[1]	2196.48 tonnes	1980
Total general waste management expenditure	£168,327[2]	
Water consumption	60,070 m^3	55,000 m^3
Water & Sewerage expenditure	£190,250	
Buildings energy consumption	51,206,816 KWh	49,000,000 KWh
Total energy expenditure	£3,442,614	

* these targets are our internal stretch targets, as opposed to externally set ones, we have set them to drive performance and achieve our longer term goals.

[1] Waste from refurbishments is not available in time for the production of this report.

[2] DVLA waste management costs form part of a PFI contract. This cost is the general operational waste management cost and does not include construction waste disposal costs. Revenue received from waste paper/pallets recycling has been included. Under the PACT contract there is no charge for disposal of IT equipment.

Industry/sector benchmarking

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

During the 2007-08 review, overall DVLA environmental performance was below benchmark, however, IPD reported that “for 40% of the occupied office space the overall environmental sustainability performance is ahead of benchmark.”

Whilst we are reducing our overall water consumption and carbon emissions from business travel, the key area of environmental focus and development for DVLA is energy efficiency.

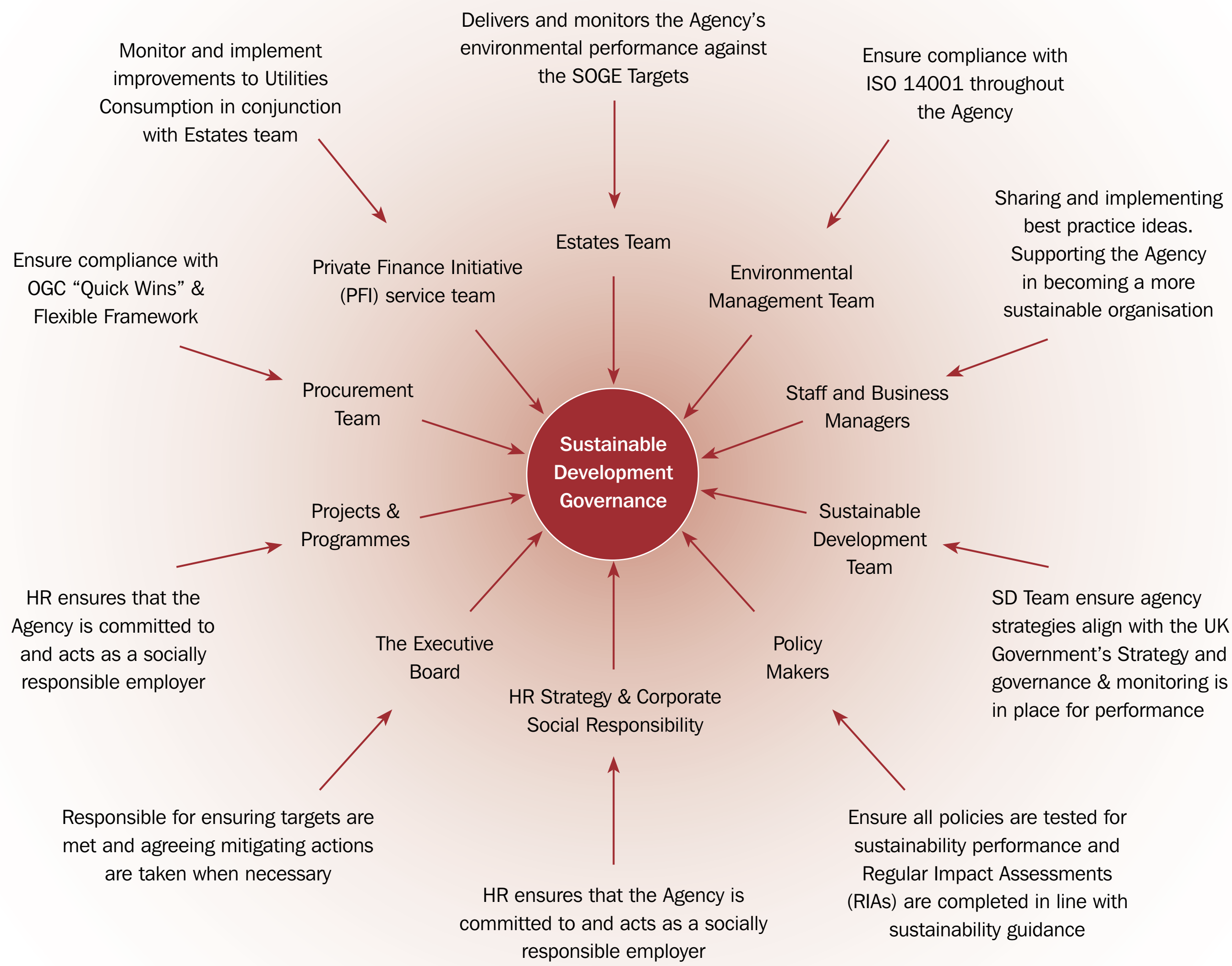
The 2007-08 review found energy performance to be below the benchmark, however, DVLA’s performance is skewed by the high energy consumption in the HQ buildings in Swansea housing its industrial print and in-house data centre environments.

DVLA has used the benchmark information to enhance the reporting of property issues both within the organisation and to other stakeholders. The data was used to help identify and rank opportunities for efficiency improvements and savings. The review helped expose opportunity for change, provided objective and contextualised evidence of previous progress and good performance, provide data to support and inform key decisions and help raised the profile and performances of properties within DVLA.

Governance

4. The Agency has a Sustainable Development (SD) Planning Team that has been working with specialist areas across DVLA to improve the way in which SD is embedded into the Agency to shape business planning and performance. The Agency publishes it own Sustainable Development Action Plan (SDAP) annually. This sets out all its key actions to improve sustainable performance across all functions of the Agency (www.dvla.gov.uk/publications.aspx) A SD forum has been set up where representatives from key areas meet to share good practice and develop the Agency’s Strategy for SD. This forum has been instrumental in helping the Agency monitor and improve performance.

Governance and Accountabilities



DfT, OGC and SDC receive updates as requested and/ or required and the public are updated of annual progress via DVLA's internet site

DVLA Sustainability Report for Year ending 31 March 2009

Greenhouse Gas Emissions		2007-08	2008-09	Target 2009-10
Non-Financial Indicators	Gross emissions from buildings	**14,576**	**17,019**	15,500
(tCO_2e)	Gross emissions attributable to official business travel	**750**	**840**	**790**
Financial Indicators (£k)	CRC Gross Expenditure (2010 onwards)	**N/A**	**N/A**	**£208,680**
	Expenditure on accredited offsets (e.g. GCOF)[1]	**£0.00**	**£0.00**	**£0.00**
	Expenditure on official business travel	**£1,182,359**	**£955,498**	**N/A**

Commentary

Operation of DVLA's on site CHP provides an excellent contribution to the reduction of carbon from DVLA's activities. As part of its upgrade projects on sites, DVLA has introduced a second CHP engine for its new on site data centre which when operational will further reduce carbon emissions. Carbon reduction projects during the year have focussed on reducing the emissions from energy used in Swansea buildings which make up approximately 91% of DVLA's emissions from buildings.

Our overall travel has shown a reduction since October 2008, however, in order to meet our final target of 739 tonnes we will need to reduce CO_2 by 100.51 tonnes, which equates to a reduction in our road travel by approximately 153,000 miles year on year by 2010-11.

Waste			2007-08	2008-09	Target 2009-10
Non-Financial Indicators (t)	Total waste (Minimum Requirement)		**2444.6**	**2196.48**	1980
	Hazardous Waste	Total		**0.00**	**0.00**
	Non hazardous waste	Landfill	**926.32**	**646.68**	**380**
		Reused/Recycled	**1518.28**	**1549.8**	**1600**
		Incinerated/energy from waste	**0**	**0**	**0**
Financial Indicators (£k)	Total disposal cost (Minimum Requirement Waste revenue Receipt 07-08 £54,000 Waste Revenue Receipt 08-09 £39,724		**135,919**	**168,327**	

Commentary

Cross Government targets to recycle 40% of waste arisings by 2010 have been exceeded during 2008-09 with DVLA recycling approximately 71% of its waste. This has been achieved by an increased emphasis on waste minimisation, and also having 19 separate waste recycling streams including paper, fluorescent tubes, toner cartridges, wooden pallets, and kitchen oil. DVLA recycles all its waste paper, which is vital as it's our biggest waste stream and therefore one of our biggest environmental impacts. Our partners Trillium and IBM have also been instrumental in helping us achieve our targets.

Our focus now turns to how to achieve the 75% rate by 2020 and the reduction of overall waste arisings by 5% by 2010 and by 25% by 2020, relative to 2004-05 levels.

Disposal costs are not routinely captured. Work is in hand to consider how this can be improved for future reporting.

[1] DVLA does not currently carry out any carbon offsetting.

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

DVLA continues to aim for the cross government 2020 target. Major leaks were identified in Morriston and at our property in Maidstone as a result of a benchmarking exercise. Investment in this area includes the installation of waterless urinals, increased metering, rainwater harvesting in new buildings. Consideration is now being given to further rainwater harvesting collection. Enhanced monitoring and benchmarking has ensured that leaks are detected, isolated and repaired quickly and adjustments to timing settings on automatic taps has meant less water wastage.

The number of staff drives the main water usage on the DVLA Estate. A staff awareness campaign is being formulated to remind staff of their responsibility in this area.

*Figures supplied are for Ty Felin only and do not include A Block data. The Ty Felin target for 09-10 is less than the actual used in 08-09 due to relocation of part of the workforce to C Block at Morriston.

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

DVLA currently sources 28% of its electricity from its current on-site combined heat and power (CHP) system, surpassing the current 15% target by 2010. The Agency is committed to improving its energy efficiency and has delivered a number of changes during the reporting period. These have included projects to install double glazing, increased insulation on a large flat roof, SavaWatt controls and Isocovers. Work is ongoing to install further sub-metering and on upgrading the existing Building Management System (BMS). Temperature controls are proactively managed thereby increasing energy efficiency across the Estate.

Focus must now move to introducing further steps to meet the cross government targets. Delivering increased energy efficiency per m2 and sourcing at least 10% of electricity from renewable sources.

Glossary

AFRL	Automated First Registration & Licensing
AO	Accounting Officer
ANPR	Automatic Number Plate Reader
B2B	Business to Business
BQS	Better Quality Services
CETV	Cash Equivalent Transfer Values
CIA's	Change and Improvement Advocates
CIE	Continuous Insurance Enforcement
COPPE	Centre of Programme and Project Expertise
CPC	Certificate of Professional Competence
CR	Continuous Registration
CSE	Customer Service Excellence
CSR	Comprehensive Spending Review
DfT	Department for Transport
DG	Director General
DQC	Driver Qualification Card
DRC	Depreciated Replacement Cost
DRD	Department for Regional Development
DRP	Drivers Re-engineering Project
DSA	Driving Standards Agency
DVA	Driver and Vehicle Agency
DVS	Driver Verification Service
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
EB	Executive Board
ELISE	Electronic Links Implementation & Strategic Enablement
ERP	Enterprise Resource Planning
EVL	Electronic Vehicle Licensing
FReM	Financial Reporting Manual
FTEs	Full Time Equivalents
GP	General Practitioner
HA	Highways Agency
HGV	Heavy Goods Vehicle
HIA	Head of Internal Audit
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
HQ	Headquarters
HR	Human Resources
IA	Internal Audit
IAG	Information Assurance Group

IAO	Information Asset Owner
IBM	International Business Machines
ICFN	Identity Cards for Foreign Nationals
IRM	Integrated Resource Management
IT	Information Technology
LLP	Late Licensing Penalties
LSN	Local Services Network
MCA	Maritime & Coastguard Agency
MFS	Motoring and Freight Services
MVL	Motor Vehicle Licence
NBV	Net Book Value
NI	Northern Ireland
OGC	Office of Government Commerce
OPG	Office of Paymaster General
PACT	Partners Achieving Change Together
PCSPS	Principle Civil Service Pension Scheme
PFI	Private Finance Initiative
PLG	Private Light Goods
PWC	PricewaterhouseCoopers
RLDC	Richard Ley Development Centre
SAP	Systems Applications and Products
SD	Sustainable Development
SDAP	Sustainable Development Action Plan's
SDiG	Sustainable Development in Government
SIC	Statement on Internal Control
SLA	Service Level Agreement
SORN	Statutory Off Road Notification
SRO	Senior Responsible Officer
SSC	Shared Services Centre
SSDL	Safety, Service Delivery and Logistics
UKBA	United Kingdom Border Agency
UK GAAP	UK Generally Accepted Accounting Practice
VAT	Value Added Tax
VCA	Vehicle Certification Agency
VED	Vehicle Excise Duty
VER	Voluntary Early Retirement
VfM	Value for Money
VINI	Vehicle Integration Northern Ireland
VOSA	Vehicle and Operator Services Agency

Contact us

All our services may be accessed through

Directgov
Public services all in one place
www.direct.gov.uk

Alternatively...

Drivers enquiries	**Email:** www.direct.gov.uk/emaildvla
Telephone:	0870 240 0009 (national rate)
Fax:	0870 240 1651
Address:	Drivers Customer Services (DCS) Correspondence Team DVLA Swansea SA6 7JL
Textphone:	for the deaf and hard of hearing 01792 766 366 (standard rate)
Vehicle enquiries	**Email:** www.direct.gov.uk/emaildvla
Telephone:	0870 240 0010 (national rate)
Fax:	0870 850 1285
Address:	Vehicle Customer Services (VCS) DVLA Swansea SA99 1AR
Textphone:	for the deaf and hard of hearing 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:	01792 782318 press.dvla@gtnet.gov.uk
To call the Agency from abroad	+ 44 1792 782341

If you would like further information about this Annual Report and Accounts, please contact Corporate Management Services, DVLA, Swansea, SA6 7JL, 01792 782620.

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