Driver and Vehicle Licensing Agency

DVLA Annual Report & Accounts 2006–07

An executive agency of the Department for Transport

Electronic Vehicle Licensing

Non-Territorial Working

New secure photocard driving licence

VED Enforcement

Vehicle Records

Tachonet

Driver and Vehicle Licensing Agency

Annual Report and Accounts 2006–07

Presented to Parliament pursuant to section 4(6) of the Government Trading Funds Act 1973 as amended by the Government Trading Act 1990

Ordered by the House of Commons to be printed 19 July 2007

HC800 London:
The Stationery Office £18.00

Shared Service Centre

DVLA Personalised Registrations

DVLA Contact Centre

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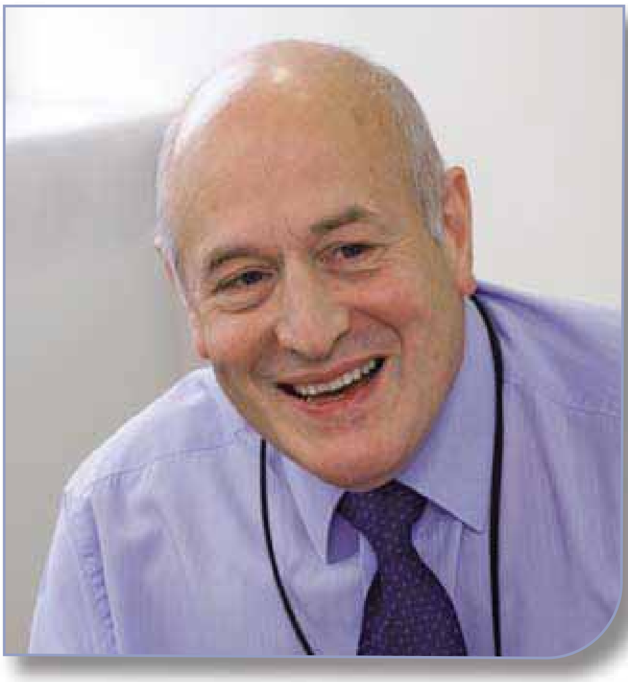


Clive Bennett, Chief Executive 2001–2007

I have been privileged to be able to lead the Agency's transformation journey over the last 7 years and have seen huge levels of commitment competence and effort from DVLA staff…

This last year has been another successful one for DVLA. We have delivered the majority of our operational and customer service targets, continued the transformation of the Agency and made good progress towards achieving the *Target End States* described in our Strategic Agenda 2007–12.

However, it has not been a year without set-backs in both operational and change areas, as we have sought to balance the need for ongoing efficiency and headcount reductions with service improvements. So in this report, we describe not only our successes but also the challenges we have faced and how we have responded to them.

This will be the last Annual Report and Accounts that I will present, as I retire at the end of 2007. I therefore believe that it is appropriate for this report to review the progress made by the Agency since the year 2000, in transforming itself to become an organisation fit for purpose to meet a rapidly changing environment, which is demanding greater customer focus and electronic service access, without losing sight of its key purpose of maintaining accurate Driver and Vehicle Registers.

During this past year we met 5 out of 8 Secretary of State Targets. However, two of the targets which were missed were co-dependent on the Vehicle Excise Duty (VED) evasion rate and additional VED receipts collected, as measured by the June 2006 Annual Roadside Survey that reported in January 2007. We are still investigating this outcome through a joint review with DfT and external statisticians because our internal measures and models had predicted a continuing improvement in this area. The survey result surprised us, but we have already learned a great deal from the subsequent detailed investigations and are in the process of developing an action plan. We missed a number of detailed operational delivery measures, although our overall customer satisfaction rose from 88% to 91%. We also fell short of our interim Gershon cost efficiency target, but remain confident of delivering against the final target of £50m per annum savings by March 2008.

In terms of our continuing service development, we rolled out our Electronic Vehicle Licensing (EVL) service to a point where we now process over 1 million electronic VED transactions a month. We also introduced the first of our electronic Drivers transactions, the first application for a provisional driving licence and processed 80,000 transactions during the year after a low profile launch without publicity. We also scored a notable success by preparing for and achieving the April 2007 go-live of the new DfT-wide Shared Service Centre hosted by DVLA. This was a groundbreaking project providing integrated Finance, HR and Payroll services with fully redeveloped processes for implementation by all 8 DfT organisations.

We continued to make significant progress in the update of our infrastructure and estates, using the flexibilities of our Partners Achieving Change Together (PACT) contract with IBM and the Private Finance Initiative (PFI) contract with Land Securities Trillium (LST) to accelerate and deliver a major transformation. We have progressed with our Organisational Change Programme (OCP) with non-territorial working being widely used within the refurbished accommodation. Job Families have been piloted and Heads of Profession appointed to support Professional Skills for Government (PSG). All of our Swansea based managers have attended leadership assessment and profiling sessions during the year as part of our restructuring exercise. The spans of control have been reviewed and leaders increasingly placed in the best position to ensure good quality staff development.

We needed to take time out during the year to stabilise our computer infrastructure as the customer demand for our electronic services accelerated faster than we anticipated. This involved placing a "freeze" on the release of new services to the public, though much of the development work continued behind the scenes and during the early months of 2007–08 we have already provided a number of new releases. The delivery of our *Target End States* (for 2012) has been reprofiled but remains largely on schedule.

I have been privileged to be able to lead the Agency's transformation journey over the last 7 years and have seen huge levels of commitment competence and effort from DVLA staff in delivering what has been a "root and branch" transformation of virtually every area of operation, which is evident throughout the Agency. I believe that the foundations for future growth and development are now well established and that DVLA is already comparable with the best in either the public or private sectors, but it must now improve continuously to maintain that status. There is a need to ensure a balance between the delivery of today's high quality services and their necessary continuous improvement for the future. This Agency has a planning methodology and capability to ensure continued success is realised. Finally I want to thank my superb team of Directors and staff throughout the Agency for picking up the challenge and making DVLA's transformation a reality.

Clive Bennett

Clive Bennett CBE
Chief Executive, DVLA

1 Directors' Summary Report

Introduction

DVLA within the Department for Transport

DVLA is an Executive Agency operating as a Trading Fund within the Department for Transport (DfT). It is the largest of the four agencies providing Driver, Vehicle and Operator (DVO) services, the other three agencies being the Driving Standards Agency (DSA), Vehicle Certification Agency (VCA) and Vehicle Operator Services Agency (VOSA). Until March 2007, the 4 agencies operated under the umbrella of the Departments' DVO Group, but since April 2007 this has been subsumed into the Safety, Service Delivery and Logistics (SSDL) Directorate of DfT.

DVLA head offices are located at two sites in Swansea, with a network of 39 Local Offices, and 3 Continuous Registration Enforcement Offices spread across Great Britain (GB). Post Office® Ltd act as our agent for managing over 60% of our vehicle re-licensing transactions at some 4,600 post offices throughout GB. DVLA is responsible for vehicle registration and the collection and enforcement of VED in Northern Ireland (NI) through the Driver and Vehicle Agency (DVA), an Agency sponsored by the Department of the Environment in NI. DVA is responsible to its department directly for driver licensing in NI.

The majority of our staff, currently over 7,000 (some 6,133 full time equivalents at the year end), work to maintain an accurate record of those who are entitled to drive various types of vehicles, together with a register of all vehicles entitled to travel on public roads. These records enable us, together with our key delivery partners, to meet the strategic policy outcomes set out opposite.

In addition to managing large databases (more than 40m live driver and 32m vehicle records) we issue some 7m driver licences, 9m registration certificates, respond to more than 8m enquiries from the police and 28.2m enquiries from customers on driver licensing and vehicle registration issues each year (12.6m by call handlers and 15.6m by automated voice handling). In addition we provide enforcement operations to ensure the public is protected from untaxed, uninsured and unsafe driving. These are our 'core services' or 'business as usual'.

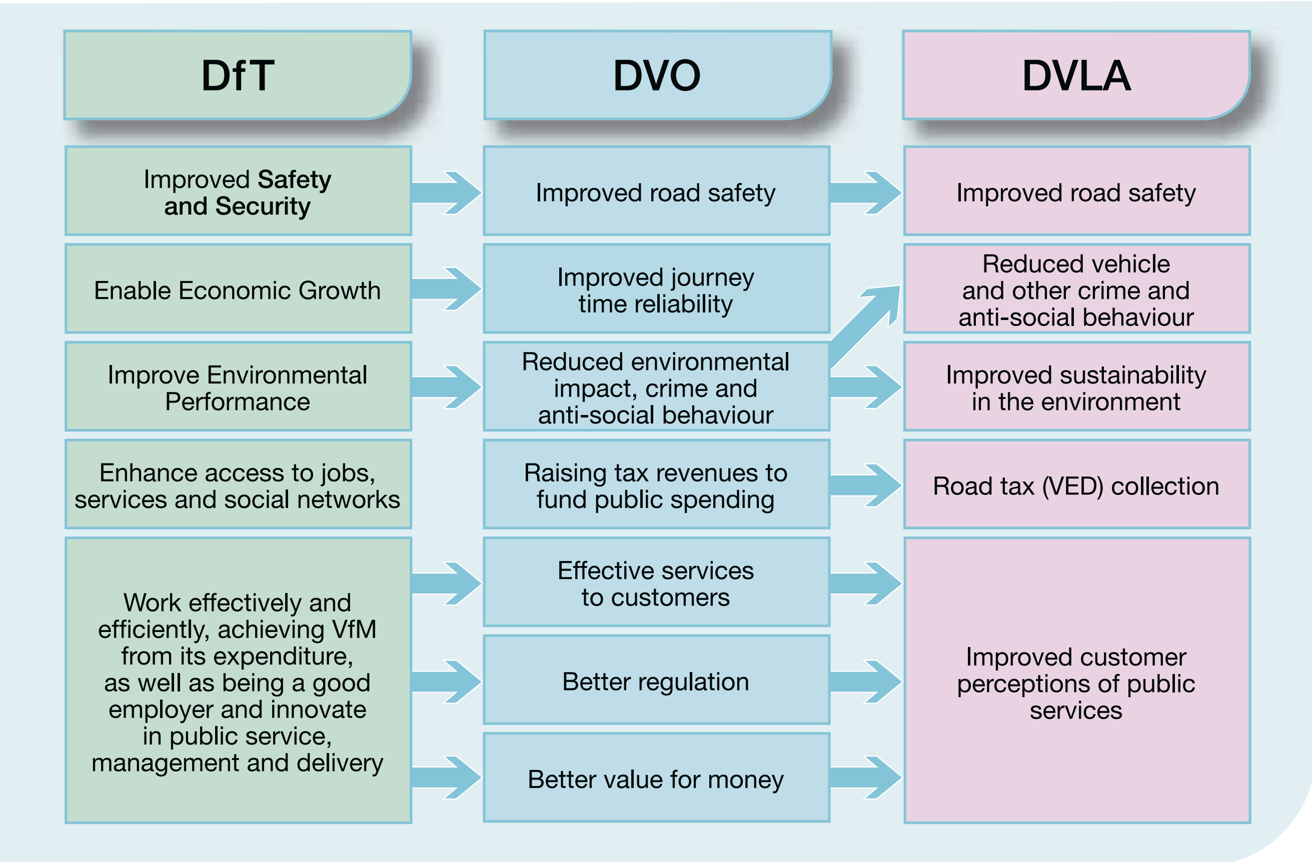
DVLA also has one of the most successful "wider markets" initiatives in Government and the Sale of Marks scheme results in sales of some 240,000 registration marks each year, to both the public and cherished number dealers. To date, this has resulted in an additional £1bn funding for HM Treasury to whom DVLA remits all receipts over and above its costs of operation for these activities.

Our key purpose is: "to establish and maintain an accurate record of all those who are entitled to drive various types of vehicles, together with a register of all vehicles entitled to travel on public roads."

Our vision is: "To be the trusted partner – right at the heart of road safety."

Our mission is: "To maximise our contribution to improving road safety, reducing crime, improving the environment and improving public experience of government services through the efficient provision of our statutory core activities of driver and vehicle registration."

Our Strategic Policy Outcomes and their links to those of DfT and DVO are:



In developing and presenting our Business Plans and agreeing our Secretary of State targets, we have adopted a structure where we measure our outputs since the outcomes above continue to prove extremely difficult to measure objectively. In this structure we analyse our activities into 3 categories of outputs that deliver:

- **Compliance**
- **Customer Service**
- **Efficiency (Value for Money)**

The Compliance activities provide measures as a proxy for the first four of our outcomes, whereas the Customer Service and Efficiency measures deliver primarily against our final outcome. Clearly, there are linkages across these categories. For example, introducing a new e-service may be intended mainly for efficiency purposes, but provided it is well researched and presented will make the transaction easier for the customer and thereby improve compliance.

The remainder of the Directors' Report is structured to reflect what we have achieved over the last year in Compliance, Customer Service and Efficiency.

This Annual Report and Accounts should be read in conjunction with our *Strategic Agenda 2007–12* and our *Business Plan 2006–07*, which details our objectives for this reporting year. It is also helpful to set it in the context of the significant transformation which has taken place in the Agency since 2000 (see Highlights for 2000–07 on page 8–9).

For further information on DVLA (including our corporate documents) visit **www.dvla.gov.uk**

Highlights for 2000–07



	Organisation & Strategy	Infrastructure Services & Electronic Services	Estates
2000–01	■ Signed European Car Information System Treaty	■ Redefined IT contract into Partners Achieving Change Together	■ Opening of new offsite office space (Swansea Vale 1)
2001–02	■ New Agency Strategy developed and published	■ Automated First Registration Licencing ■ Data sharing with TfL to support Congestion Charging	■ Opening of second offsite office space (Swansea Vale 2)
2002–03	■ Agency II Strategy and Workbook developed	■ PACT contract migration from EDS to IBM	
2003–04	■ Strategic Agenda development		
2004–05	■ Trading Fund ■ Target End States development	■ Electronic Vehicle Licensing ■ Introduction of Automatic Driving Licence Issue	■ Opening of Training Centre, Innovation Centre and Contact Centre
2005–06	■ Organisational Restructuring ■ Organisational Change Programme ■ Leadership Assessments initiated	■ System Application Processings Payroll ■ Military Automatic Driving Licence Issue ■ Direct.Gov ■ Barcoding on All Registration Transactions ■ First e-Drivers transaction – provisional application	■ Non Territorial Working ■ Land Securities Trillium Private Finance Initiative
2006–07	■ Job Family piloted ■ Shared Services restructuring completed	■ Electronic Vehicle Relicensing Rollout with MoT computerisation complete	■ Shared Services completed ■ Main site refurbishment commenced
2007–08		■ Further Driver customer e-transactions ■ Drivers Re-Engineering Project for Data Partners – Fee Paying enquiries ■ Provisional Smartcard pilot	■ Dual Print site ■ Parallel Data Centres ■ Refurbishment of Main site complete

New Services	Efficiency Gain	Operational Performance/ SOS Targets Achieved
■ Complete roll out of Photographs on Licences ■ Implementation of Better Quality Services programme	3.2% (In Year)	11 out of 12
■ Graduated Vehicle Excise Duty ■ Launch of Automatic Number Plate Reader ■ New vehicle registration format ■ New bi-annual registration launched	3.1%	11 out of 11
■ Automatic Number Plate Reader introduced	2.6%	12 out of 12
■ Continuous Registration introduced ■ First 2 phases of Barcoding all Relicencing Transactions implemented	2.5%	9 out of 12
■ Leadership workshops commenced ■ Sale of Marks website introduced	5%	10 out of 12
■ Introduction of Continuous Registration Enforcement Centre's	3%	8 out of 9
■ Shared Services Centre delivered ready for go-live April 07	3.7%	5 out of 8
■ Shared Services Go Live	4% (Forecast)	

Highlights for the Year

Things we did well

Compliance – Operational Results

- **Operational targets** – we met or exceeded 5 out of 8 Secretary of State Targets.
- **Prompt Payment** – in line with the Government's commitment on the prompt payment of bills and its Better Payment Code, the Agency aims to pay all undisputed invoices within 30 days (or contractual terms if different). The Agency met this target in 98.12% (2005–06 99.1%) of cases, exceeding the public sector target of 98%.

Customer Services

- **Driver Re-engineering Project (DRP)** – we delivered the first of our Driver e-transactions (first application for provisional driving licence) through Directgov and during the year processed 80,000 transactions.
- **Electronic Vehicle Licensing (EVL)** – the MoT systems are now fully rolled-out, so that all relevant vehicles can use the e-licensing EVL system. We are already 8 years ahead of our take-up target profile, with over 100,000 transactions a day processed at peak periods. The service received a Highly Commended award for Operational Delivery in the Whitehall Civil Service Awards and recently won the first CIO Council Award for the **"Best example of Transformational Government"**.
- **Charter Mark** – the accreditation body confirmed that we continue to meet these standards, following on from DVLA's fifth consecutive Charter Mark Award in 2005.
- **Customer Satisfaction Survey** – we improved our overall rating, from 88% last year to 91%.

Efficiency – Organisational Change

- **Changing the Way we Work** – we now have over 4,000 staff working on a non-territorial basis, with all Swansea managers completing formal assessments of leadership competencies and have piloted our Job Families to support PSG.
- **Sustainable Development** – we produced our first Sustainable Development Plan in 2006.
- **Estates Re-organisation** – we are substantially complete in our main refurbishment for the main site in Swansea, with additional works underway to replace our twin data-centres. We are also moving to two-site working for "Output Services" and have commissioned the new Shared Service Centre to support DfT.
- **Shared Services** – the new Shared Service Centre went live in April 2007 as planned.

Things we could have done better

We Missed 3 out of 8 Secretary of State Targets (see Page 12–13 for commentary).

Compliance – Operational Results

- VED Collection and Evasion Rates – the Roadside Survey 2006 indicated that our VED evasion loss increased from 3.6% last year to a figure of 5% for 2006–07.

Customer Service

- Customer Service – we failed 6 out of 18 detailed targets, missing the overall target as a result, with key elements being:
  - Driving Licence Turnaround – we failed to issue our driving licences within the specified timescales
  - Call Centre Performance – we failed to answer our target of calls within 30 seconds.

Efficiency – Organisational Change

- Better Value for Money (VfM) – we missed two profile milestones for the efficiency target:
  - We delivered £17.5m additional VfM gains during the year but this was £2.1m short against our profile interim target for the year of £19.6m. Our cumulative efficiency saving to dates add up to £44.2m and we remain on target to reach our final Gershon target of £50m by 31st March 2008.
  - Based on the evasion target noted above, we failed to achieve the linked £50m Gershon profile target of increasing the tax collected.

New Systems Landscape (NSL) Freeze

We encountered significant operational IT infrastructure problems during the year largely because of the significant above forecast level of EVL business. This action did not significantly impact our customer services but did delay some new service releases planned for the year. The freeze was lifted in January 2007 and the causes are now largely resolved.

Performance against Targets

Secretary of State Targets 2006–07

	Target 2006–07	Measurement Basis	2006–07	Longer Term Target
	Compliance – Delivery of Outcomes			
1.	**Road Safety and Crime Reduction** Accurate Records Maintain 97.5% of current vehicle keepers as the level to be successfully traced from the record.[1]	■ Accuracy Survey for 2006.	Achieved Internal measures were used to validate, as no external survey was undertaken.	The internal on the road survey will continue to be used as it provides major cleansing benefits.
2.	**Collection of Tax & Reduction of Anti Social Behaviour** Enforcement By 31 January 2007[2]: Reduce VED evasion loss to 2.9%.[3] Reduce the number of persistent evaders of VED from the June 2002 figure by 50%.	■ Evasion % measured annually by Roadside Survey. ■ Persistent evaders % measured by JDI from data captured in Annual Roadside Survey. *NB: These have equal weighting.	Not achieved ■ Annual Roadside Survey results show 5% evasion rate. ■ This target is linked to evasion rates and we do not believe we have met this target.	Subject to ministerial decision on the DVO Single Enforcement Budget and definition of new measures to be agreed with HM Treasury.
3.	**Road Safety** Insurance Enforcement ex Record Work with the insurance industry to deliver enforcement of insurance from the record. NB: subject to implementation of Road Safety Bill.	By March 2007: ■ Reach agreement with Motor Insurers Information Centre (MIIC) about record accuracy and timeliness of update. ■ Agree parameters of enforcement activity. ■ Agree an implementation timetable to deliver a scheme sanctioned by the Secretary of State.	Achieved Continuous Insurance Enforcement scheme agreed in principle, together with underlying parameters. Incorporated in Road Safety Act and project defined to start in 2007–08 for delivery of the scheme itself in 2008.	
	Better service to customers			
4.	**Customer Satisfaction with Service Delivery:** Maintain or improve customer satisfaction at the 2005–06 level of 88%.	■ The annual DVLA Customer Satisfaction Survey.	Achieved 91% Satisfaction Level recorded – an improvement against previous year.	Measurement in future through the DVO-wide Customer Survey.
5.	**Operational Service Delivery** Maintain or improve on the standards set out in detail for direct services to the customer.	■ Achieve target for at least 16 of the 18 major service delivery measures. (Targets set out on page 14).	Not achieved 12 out of 18 met.	No Change envisaged to target.
6.	**Modernisation of Government** Deliver customer choice for operational services through increasing the number of inbound services available via electronic channels.	Volume of inbound services **available,** that could be completed electronically, is at least 64% of the total inbound service volume by March 2007.[6]	Achieved 65.31% availability provided as at March 2007.	Extend the availability to 76% by Dec 2010.

	Target 2006–07	Measurement Basis	2006–07	Longer Term Target
	Better value for money			
7.	**VfM Delivery:** Deliver the benefits agreed in the Value for Money Plan:	For 2006–07 the interim targets as profiled to achieve the final 2007–08 VfM targets were:	Not achieved	31st March 2008 Targets
	1. Financial efficiency gain.	1. £19.6m in addition to the target for the previous 2 years (to running total of £46.3m).	1. Not achieved: £44m delivered – £2.3m short of interim profile target.	1. £50m
	2. Reduction in FTE workforce.	2. To 6,175 FTE Posts.[4]	2. Achieved: 6,133 FTE	2. 5,975
	3. Delivery of additional VED.	3. £50m on profile for £70m by March 2007[5].	3. Not achieved. (see notes on page 11).	3. £70m
	4. Delivery of additional net income from sale of personalised registrations and income from cherished transfers.	4. Additional £5m a year by March 2007.	4. Achieved: £7.4m additional delivered.	4. £5m
8.	**Channel Migration** To deliver a programme of e-service capability across the consumer commercial and business sectors.	Volume of inbound services[6] delivered electronically is at least 17% of the inbound volume available electronically by March 2007.[7]	Achieved The level delivered for March 2007 was 36.60%.	The level to be delivered by Dec 2010 is 70%.

Notes to Targets table

1. For vehicles for which a Harmonised Registration Certificate (HRC) has been issued.
2. Set against a baseline of 970,800 vehicles (or 3% of total vehicle population), obtained from the 2002–03 roadside survey as detailed in the Jill Dando Institute of Crime Science (JDI) report on Vehicle Underclass. Persistent evaders are those whose vehicles:
   - are untaxed (or SORN declared) for at least 3 months
   - are between private keepers for at least three months (vehicles in the Trade are excluded)
   - where the keeper has an unallocated post-code (rough indicator of vehicles registered to a false name or address)
   - where the vehicle registration mark is not on the DVLA record (indicator of vehicles with false or tampered numberplates)
   - where the VRM is registered to a different vehicle type or model (indicator of vehicles with false or tampered numberplates)
   - when the vehicle is declared scrapped.
3. Compared with the 4.8% outcome of the 2002–03 roadside survey (June 2002).
4. This represents the profile milestone for the reduction from 6,607 Full Time Equivalent staff at 31 March 2004 to a final target of 5,975 by 31 March 2008 [6607 – 500 on original target – 75 transfer to SSC – 57 staff absent on long term sickness]. This 5,975 figure excludes staff who will be working in the DfT Shared Service Centre for which a separate benchmarked total of 257 has been agreed for March 2008. This change in treatment of the SSC staff means that our business plan profile target of 6,250 was reduced to 6,175. The number of posts in the target is irrespective of the level of new work and legislative changes required, with the original target figure defined according to already planned additional work known at 2004.
5. This figure excludes any VED increase in levels imposed by HMT or changes in mix of either 6 or 12 month licences sought or of vehicle type/emissions mix as a result of graduated VED structure.
6. Inbound refers to those transactional services where customers initiate the service. The remainder of services provided by DVLA are outbound services and these will become the subject of a separate target beyond 2007. The dispatch of tax discs and photocard licences are excluded from these volumes, as they cannot be delivered electronically. During 06–07 the major services that will be available electronically are EVL/SORN, some drivers services and Automated First Registration and Licensing.
7. This target measures the take-up of electronic services by our customers. The result against this measure for 2006–7 is heavily influenced by the number of customers eligible to use EVL.

Measures of the Timeliness of Service Delivery to Customers

	Target 2006–07	Performance 2006–07
Driving Licences		
To deliver 98% of 1st driving licences	8	84.9%
To deliver 98% of Vocational Licences	8	97.9%
To deliver 97% of Ordinary Licences	10	93.7%
Medical Investigations		
To conclude 97.5% of simple cases	15	88.3%
To conclude 80% of complex cases (those that require further medical investigation)	90	87.2%
Vehicle Registration Document		
To deliver 95% of V5Cs resulting from V55s (First Registration Documents), excluding cherished transfers	14	99.7%
To deliver 95% of V5Cs (Changes on a Registration Certificate)	14	98.6%
To deliver 95% of V5Cs resulting from V62 (Notifying changes to the Registration Certificate) applications	30	99.6%
Vehicle Excise Duty Refunds		
To deliver to 95% of refunds due	30	99.1%
Customer Service		
To respond to calls demand	95%	99.0%
To answer 82% of calls routed out of VOICE	30 seconds	72.4%
To answer 95% of e-mails	3	98.8%
Achieve an average Local Office Network queuing time of 15 minutes or less	100%	14:52
Cherished transfer (in 7 working days)	95%	97.4%
Customer Complaints		
To acknowledge all complaints	1	100%
To provide a substantive response to 98% complaints	10	98.4%
MP Correspondence		
To acknowledge all correspondence	1	100%
To provide a substantive response to 98% correspondence	7	94.9%

Notes to measures table:

1. Measures are expressed in working days unless specified otherwise and, in terms of transaction outputs, take account of receipt of the application at DVLA to receipt by the customer.


Directories
Do it online
Newsroom
Do it
online
Taxing your vehicle
online
The Driver and Vehicle Licensing

Commentary on the Targets Missed

Reduction of VED Evasion – Annual Roadside Survey 2007

Internal management information produced on a monthly basis during the year suggested that we were continuing to reduce VED evasion from the 2005–06 figure of 3.6% of lost revenue. However, the Annual Roadside Survey undertaken in June 2006 reported in January 2007 that VED evasion had increased to 5%, equating to a loss to the Treasury of £217m (£70m more than the 2004 baseline).

We consider this to be a failure in our corporate assurance processes and this is reported in our Statement of Internal Controls. We do not yet understand whether the anomalous figures result from behavioural changes, from underlying incorrect assumptions in our calculation models or from systemic failures. The detailed examination has, however, provided us with a number of new insights and we are addressing a number of the lessons we have learned through the process. We also have a number of reviews underway, an objective statistical assessment of the Survey model, detailed follow-up of survey details and a reworking of our internal management models, jointly with DfT to understand the reasons and allow us to plan corrective actions. We are involving National Audit Office (NAO) closely as we and DfT work through the issues, we also discussing our plans with HM Treasury.

Driving Licence Turnaround

We missed the Secretary of State Targets for issuing first applications for driving licences and ordinary driving licence transactions. For a time we also missed our vocational driving licence turnaround targets, but recovered before the end of the year. Reasons for these include:

- An increase in the number of applications and requests for amendments. This activity shows an improvement in customer compliance which in turn improves accuracy, however, the volume exceeded our expected resourcing
- Simultaneous reduction in staff numbers to meet our Gershon headcount target
- Continuing pressures to implement the new systems and change the organisation.

These issues were addressed in December 2006 when our backlogs were brought down to levels that allowed us to consistently deliver licences to our customers within the timescales set.

Call Centre Performance

During April 2006 to March 2007 we achieved a service level of 72.46% calls answered within 30 seconds against the Secretary of State target of 82%. However, we have evidence that the overall customer experience has improved, with a significant drop in our unmet demand, where our customers are unable to contact us and get the engaged tone. These two factors are registered within the context of a record number of "calls answered by our advisors" rising from 10.2 million calls in 2005–2006 to 12.6 million in 2006–07, an increase of 23% some of which are based on the driver licence performance opposite. We have absorbed all the new telephone enquiry and payment work arising from our introductions of Continuous Registration Enforcement and the Vehicle Enforcement Hotline through productivity improvements rather than using extra resource.

Better Value for Money

As part of the target setting for DfT, the four DVO agencies were jointly expected to deliver total VfM expenditure gains of some £70m per annum by March 2008. DVLA was set a reduction of £59.8m as a "stretch target" over the 4 year period compared to its 2004 baseline cost "run-rate". This initial stretch target needed a profile achievement of £46.3m by March 2007, DVLA had delivered some £44.2m in VfM gains missing its interim target.

During 2006–07, the original cross-agency allocation was revised and the DVLA target is now £50m per annum reduction by March 2008, with the DVO agencies set to meet the overall £70m. Consequently DVLA missed its original interim profile target, but remains well placed to meet its new final contribution target, with an additional £5.8m to deliver in this fourth year as well as consolidating its previous gains.

Performance against Service Outputs

Compliance

Policy and legislative changes – evidence based policy

Road Safety Act

The Road Safety Bill completed its final stages through the Houses of Parliament and received its Royal Assent on 8 November 2006. The resulting Road Safety Act (2006) contains a number of Driver measures which include:

- the power to recall old paper driving licences
- the power to charge a fee for 10 year photocard licence renewal and for certain alternative licences
- a new system of endorsement, including abolition of the paper counterpart to the driving licence.

We plan to introduce the new fee on 1 April 2008, at which time the Agency will begin to receive applications from drivers to renew their photocard licences after the first 10 year period since issue.

Third EU Driving Licence Directive

The Third Directive was published in the Official Journal of the European Union on 30 December 2006 and became effective in January 2007. The Directive requires changes to be made to driver licensing laws and practices, improvements to physical licence and system security and allows a chip (previously proscribed) on the drivers licence to increase card security. DVLA and the DSA will work with DfT to implement the changes needed in the UK by January 2013.

Drivers Programme

At the start of 2006–07, our Drivers Programme delivered its first high volume electronic transaction through our new Drivers Re-engineering Project (DRP) system. The service allows our customers to apply for a first provisional driving licence online through DirectGov, accessing data held by the Identity and Passport Agency as part of our process.

In May 2006 we started a pilot for an online driver enquiry service using our DRP system. The service provides instant access to our driver information, including driver ID, entitlement details, endorsements, photographs and signature. In February 2007 we extended the trial to North Wales Police, providing immediate identification at the roadside and an ability to enforce unlicensed or disqualified driving in a way never possible previously. Access to DRP has also been provided to Courts and HMRC (under existing legislation) and significant benefits have been realised in response times and cost savings in moving from previous enquiry handling that involved manual interventions. The benefits apparent already include reduction in court case adjournments by up to 80% for motoring prosecutions, reduction in police authentication time at the roadside and improved enforcement. It also saves innocent motorists having to present their documentation at the police station.

- Compliance
- Customer Service
- Efficiency

During the last 12 months we have agreed a new and more secure driving licence with UK Ministers and the European Commission. In addition, we have installed and commissioned new licence production equipment to personalise new polycarbonate licences through laser engraving. All major components are now on site and the new, secure, laser engraved cards will be issued from June 2007.

Ten yearly Renewal Cycle

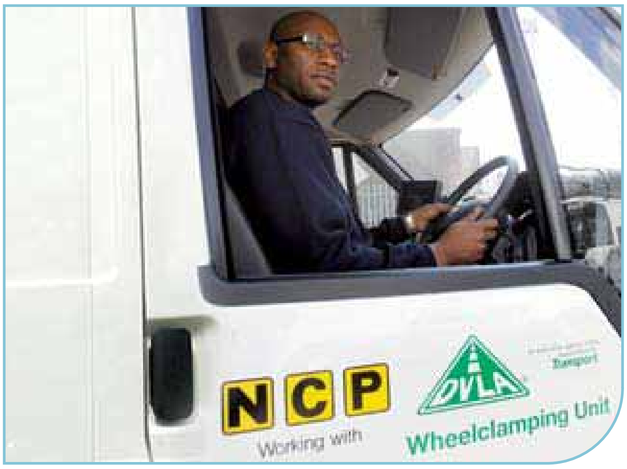
We have scoped and undertaken preparatory work for developing systems, communicating and notifying drivers with photocard licences as their 10 year photograph licences need renewal. Delivery will take place during 2007–08, ready for the first renewals due in July 2008. Meeting the objectives within the existing legislative framework will need good communication and working with users of driving licences (police, car hire companies etc.) will be key to its success.

VED Enforcement

During 2006–07, (see p.11), we did not achieve our VED evasion rate reduction targets. This is dealt with in more detail in both the Management Commentary that follows and the Comptroller and Auditor General (C&AG) Section 2 Report that accompanies the VED Accounts. This result was extremely disappointing for us as we delivered a number of significant initiatives during the year to continue to address evasion.

In May 2006 we awarded a new wheelclamping contract to National Car Park (NCP) Services. The wheelclamping is provided by a series of static and mobile pounds throughout GB and NI. There are 260 NCP staff dedicated to this activity utilising 35 Automated Number Plate Reader (ANPR) units. The new contract doubles the number of penalties and increases our capacity to wheelclamp and impound unlicensed vehicles, to up to 100,000 per year.

We continued to increase the use of devolved powers to enable more Police and Local Authorities (LAs) to wheelclamp unlicensed vehicles on behalf of the Agency. There are currently 80 LAs and 8 police forces using these devolved powers, reducing danger to the public and improving the environment.



In May 2006 we awarded a new wheelclamping contract to National Car Park (NCP) Services.

In 2006–07, we conducted a pilot study for the use of debt collectors to recover unpaid CR penalties. The assessment of the pilot suggested that there was a significant benefit in terms of relicensing and penalty collection. Intelligence obtained from this activity is enabling Field Enforcement and Wheelclamping teams to target persistent evaders. This activity is also allowing us to cut back on the far more expensive county court processes we previously employed.

During 2006–07 we introduced our VED Enforcement Hotline telephone facility which allows customers to pay by credit and debit card. This has generated over £8.6m in payment of enforcement actions and arrears of duty. We have now received over 72,000 reports of unlicensed vehicles from the public which have been passed to enforcement officers for further action.

MoT verification process

During 2006–07 operational teams were established to deal with queries that arise when details received from VOSA do not match our records. The rate of mismatches between the DVLA and VOSA MoT database has fallen over the year from 5.5% overall in 2005–06 to 3.6%.

Enforcement – stakeholder and partner requirements

Combating pan-European fraud & crime

Our Data Sharing and Protection Group are involved in a number of cross-border data sharing initiatives to combat pan-European crime and fraud. DVLA participate through the European Car Information System (EUCARIS) enabling stolen and scrapped vehicles to be identified when produced for registration in participating EU member states. EUCARIS also helps identify stolen or duplicate driver licences presented for exchange throughout the EU.

Tachonet

We have been issuing Tachograph cards during 2006–07, in line with the EC statutory go-live date.

Volumes remain lower than anticipated, although we expect these to accelerate as the new vehicles introduced into major fleets are fitted with the mandatory new equipment. Release of the Tachonet messaging system required for cross-EU enquiry and enforcement was, however, delayed due to the NSL freeze. Live release for EU-wide enquiries is now scheduled for the end of August 2007.

We are working with the Home Office with a view to sharing vehicle information with other EU member states for serious crime purposes under the Prüm Treaty. The Agency has also met with the Home Office to discuss development of the Schengen II system to share vehicle and driver licensing information with other member states for law enforcement purposes.

Release of Data

A dedicated team has been put together to develop and promote the benefits of a consistent and co-ordinated data sharing policy at DVLA and DVA. They will ensure that the agencies are as effective as possible in the strategic application and decisions making with regard to the sharing of data.

In July 2006 our Minister announced 14 new measures on the release of vehicle keeper details to those who could demonstrate 'reasonable cause'. The Agency subsequently introduced new:

- requirements for evidence of 'reasonable cause'
- requirements for approved conditional accesses
- auditing measures to combat misuse
- complaints procedure.

New measures came into force from 1 November 2006 for all manual enquiries. From 1 October 2007, all companies making electronic requests will be required to be members of an Accredited Trade Association (ATA) who will monitor these companies activities. Those companies which are not members of an ATA will not be allowed electronic access.

In July 2006 our Minister announced 14 new measures on the release of vehicle keeper details to those who could demonstrate 'reasonable cause'.

Theft resistant number plates and products meeting the standard are available through 300 retail outlets (a list of suppliers is available on Directgov).

Number Plate Security

In 2007–08 we will be extending the register of number plate suppliers to Scotland and NI. The extension of DVLA powers granted under the Road Safety Act 2006 and a commencement order in force from 16 March 2007 allow for DVLA enforcement officers to visit premises and inspect suppliers records. We have been granted powers to prosecute those suppliers who do not comply with the legislation.

Theft resistant number plates and products meeting the standard are available through 300 retail outlets (a list of suppliers is available on Directgov). After requests from several police forces to promote theft resistant number plates, we have produced a flyer the police can hand out at supermarkets etc.

In April 2006 we carried out a trial on Electronic Number Plates successfully with 4 police forces. We have informed our Minister of the results of the trial. A feasibility report of the trial is available on the DVLA website **www.dvla.gov.uk**

Insurance Enforcement

The Road Safety Act (2006) provides the powers to implement a system of Continuous Insurance Enforcement, although the regulatory framework now needs to be put in place. The initiative will be resourced through the DfT new initiatives funding incorporated into the CSR negotiations and then monitored through the DVO single enforcement budget. Work to determine how best to implement a compliance and enforcement regime is underway.

Customer Service

Charter Mark

Following on from DVLA's fifth consecutive Charter Mark Award in 2005, a further tier was added to the accreditation system, with annual surveillance visits by assessors.

In December 2006, CMAS (the awarding body) confirmed that our service standards still meet the requirements of the Charter Mark Standard and that further progress had been made in customer service quality.

Customer Satisfaction Survey

The DVLA Customer Satisfaction Survey is based on annual research, with the survey findings agreed to be the Secretary of State Target measurement for customer satisfaction. The overall DVLA customer satisfaction level in 2006 was 91% compared to 88% in the previous year. This increase of 3% from the previous year more than meets the target set of maintenance of prior performance.

NHS Organ Donor Register

The largest source of people joining the NHS Organ Donor scheme is from DVLA customers when applying for a provisional driving licence. DVLA also issue a NHS Organ Donor leaflet with its Vehicle Reminder forms. Our long term commitment to the NHS Organ Donation Register achieved the six million motorists to sign up during 2006.

Our long term commitment to the NHS Organ Donation Register achieved the six million motorists to sign up during 2006.

Service Access Extension

We have enhanced our electronic service channels in line with the Government Modernisation Agenda. We use Directgov for individual customers and plan to use Business Link for our commercial customers in line with the Varney Report recommendations. This development of online customer services will be complemented by the parallel development of electronic access for our delivery partners, such as Courts, Police, LAs and EU counterpart registration bodies. Our primary purpose is to provide data from our registers, extending access to our data partners will provide increased effectiveness.

DRP

The delivery of the first Drivers e-transaction was noted in the Compliance Section on page 18.

Four more e-transactions were developed and tested during 2006–07. These additional services will be available to our customers from June 2007:

- transfer from paper licence to photocard driving licence
- application for a duplicate licence on loss or destruction
- change of address notification
- cyclical renewal of driving licences for "Over 70s".

Systems have been developed to allow a pilot to provide data to commercial partners (with specific and evidenced individual driver consent) from August 2007. This access should make it easier for individual drivers to undertake a range of motoring related transactions more securely and easily.

EVL

During 2006–07 our EVL service has continued to go from strength to strength, providing a 24/7 service to our customers. Since its launch in 2004, more than 7 million customers have relicensed online or by telephone, with 1 million more declaring Statutory Off-Road Notification. Take-up reached 40% in March 2007, with EVL now one of the biggest online retail services in the UK already 50% bigger than other leading online services.

We are realising significant financial savings through this service, though it means more DVLA staff to manage customer queries during transactions. This has proved problematic in terms of our absolute Gershon headcount target.

The increasing transaction volumes now being processed through a largely fixed investment in systems means that savings of £21 million will be delivered over the period 2007–08 to 2010–11. This reduces our overall cost of collecting VED.

…with EVL now one of the biggest online retail services in the UK already 50% bigger than other leading online services.

Directgov
Straight through to public services

Single "person" database

In November 2005, as part of our DRP delivery, we introduced a new customer database to provide common reference data for ourselves, DSA and VOSA. This will enable addresses to be updated to both registers as part of the same customer transaction, although full integration will only be possible as the Vehicles systems are replaced. Our eventual goal is to streamline our customer service and transactions and in doing so, improve the accuracy of our records and the effectiveness of our enforcement activities.

Sale of Marks

We are currently looking to develop more online services for DVLA customers on our Personalised Registration Marks website, with development expected to be completed in early 2007–08. During 2006–07, we conducted a number of communication exercises with stakeholders to increase awareness and keep key stakeholders updated on progress. Release to the public is scheduled for November 2007. To enhance our customer service further we are considering absorption of the Northern Ireland Sale of Marks systems into our own to provide common facilities across the UK.

Direct Debits

In 2006 we undertook a successful Direct Debit Proof of Concept study for monthly VED collection with 1,000 customers, including those from the commercial sector. We will continue to roll out direct debit facilities to our commercial customers and dealer networks, although further development work on direct debits for VED has been temporarily frozen until we have migrated the vehicles systems onto a new platform and stabilised the infrastructure.

Contribution to the Modernisation Agenda "One Stop Service"

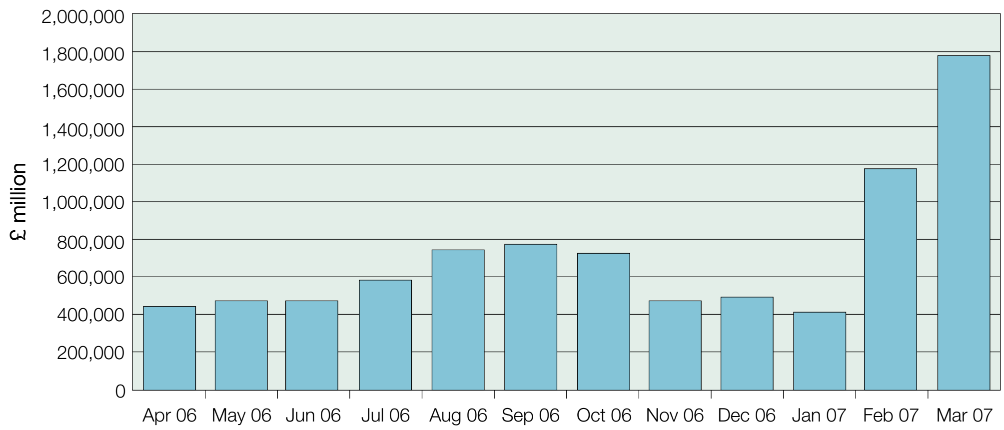
Since the launch of Directgov in April 2004, DVLA has been one of the key stakeholders within the 'Motoring' section and has played a prominent role in attracting members of the public seeking information and wishing to transact online.
The expansion of online services within Directgov provides evidence of joined-up government delivering improved customer service in the move to a digital business. Customers can access a wealth of information on topics such as driver licensing, learner and new drivers, buying and selling a vehicle, road safety and finding their nearest DVLA office.

Within the 'do it online' section, customers are able to:

- Apply for their tax disc
- Declare Statutory Off Road Notification (SORN)
- Apply for a first provisional driving licence (expanded to another 4 transactions see page 22)
- Download forms and information leaflets.

www.direct.gov.uk

Visits to Directgov Motoring



Top Ten UK Central Government Websites by Visits

Rank	Name	Market Share	Previous week
1	Jobcentre Plus	11.71%	1
2	Directgov	7.83%	2
3	Met Office	7.45%	3
4	Vehicle Licensing Online	5.89%	4
5	HM Revenue & Customs	5.47%	5
6	Driver and Vehicle Licensing Agency	2.84%	6
7	petitions.pm.gov.uk	2.09%	7
8	National Archives	1.77%	8
9	Driving Standards Agency	1.74%	9
10	Department Of Health	1.41%	13

(Figures correct as of March 2007)

Efficiency

Environment

The Agency produced its first Sustainable Development Action Plan in 2006. Our early response to DfT guidelines reflects our commitment to environmental and broader sustainability.

For the Agency this is an *internal* business objective embedded into our decision making processes as well as one of our *external* strategic outcomes linked to vehicles.

A Sustainable Development Champion is now in place to advise and develop staff awareness. We have been re-accredited under ISO 14001 for the maintenance and development of our environmental management system.

Partnership Working

During 2006–07 we have been working with our delivery partners to promote self-service principles and best practice. Our new communications systems (delivered by our "ELISE" project) will give us better and more flexible connectivity with our data partners and major commercial customers.

In 2006, we provided an enquiry link to the Veterans Agency and Department for Work and Pensions. This gives customers who receive appropriate allowances the ability to use our EVL system without the need to prove entitlement by producing their paper certificates.

Medical Licensing Review

An independent review of DVLA's medical driver licensing procedures reported in February 2006. Since then the DVO has been leading a departmental review to identify possible changes to existing health and driver licensing arrangements to be put to public consultation in Autumn 2007.

Better Quality Service

We completed our BQSplus Review Programme for the year. Recommendations for improvements and further studies were identified and are contributing to process and structure changes.

Local Offices

During 2006–07, an independent BQSpslus review of Local Operations was carried out. The findings were that the Local Office face-to-face services were still the best way to deliver specialist vehicles transactions to our customers. As part of this review we reassessed customer access criteria for our Local Offices and this resulted in a decision to close our Luton office. We are working to secure alternative employment opportunities for those staff affected.

We are currently in the process of rationalising some of our enforcement casework into 12 Regional Centres, whilst retaining the existing network for customer transactions.

The purpose of the Regional Centres is to:

- take advantage of improvements in productivity that can be achieved by bringing together all strands of enforcement casework, and
- provide more effective management of the Local Office multi-site operations.

In 2006–07 we rolled out 15 new ANPR systems for the detection of unlicensed vehicles in traffic. The new systems are capable of reading 4 lanes of traffic with increased accuracy of 'reads'. This has led to a three-fold increase in the number of vehicles checked each month.

Post Office®

Investigation into the possibility of additional work being undertaken by Post Office® branches is currently awaiting re-negotiation and settlement of the Post Office® contract.

People and Structure

Making our organisation more efficient

Organisational Change Programme

A review of DVLA directorate structures resulted in a reduction in the number of management layers, eliminating cross directorate duplication and introducing more effective spans of control.

In 2006, 897 managers based in Swansea attended the manager profiling exercise, designed to give the Agency an assessment of its leadership and people management capabilities. A management profiling assessment is currently underway in the Local Office Network.

The introduction of "Job Families" recognises that staff engaged in similar activities or delivering similar objectives often have similar "professional" development needs. Job families fully support the Cabinet Office Professional Skills for Government (PSG) agenda. PSG provides a long-term programme designed to ensure that no matter where you work, you have the right mix of skills and expertise to enable you to deliver effective services. Job Families will provide a natural career home for all staff in the Agency.

DVLA Job Family Framework

The first formal Job Family was piloted with Programme and Project Management staff. Based on feedback from this pilot, research into other organisations and work with business representatives, we developed a Job Family Framework. A further eight Job Families will be introduced in 2007–08 encompassing all Agency staff. Every job family will have its own Head of Profession which have already been appointed to lead this important initiative. The role is designed to ensure that professional standards are established and maintained within a job family.

Job Design

In 2006, we completed a successful Job Design pilot in our Drivers Medical Section. This pilot focussed on our administrative staff, to test what benefits the Agency could achieve by adopting new job design principles. Results indicate that team working and productivity improved as a result of the pilot. Work is now underway to consider how Job Design might be rolled out across the Agency.

Communication

We have an extensive network of communication channels available for staff throughout the Agency. These include:

- Internal Internet (with daily news/information/ knowledge sharing)
- Internal Magazines/Corporate Brief
- Leadership/Awareness Seminars
- Manager/Team Briefings

Learning and Development Strategy

We are committed to developing our staff so that they have the necessary skills to deal with the challenges ahead. New development programmes established during the year centre on the delivery of excellent people manager skills to support the delivery of significant business change arising through the introduction of Shared Services and organisation re-structuring.

Staff Survey

Our staff survey is very important as it gives staff the opportunity to say what they feel about working in the Agency. In 2006 we launched our first electronic staff survey. 6,964 questionnaires were distributed to staff across Agency, with 6,133 staff being invited to complete the questionnaire through our internal internet site. A total of 2,978 responses were received (43%).

Results showed:

- 71% of those staff who responded liked working in the Agency, with 52% saying that they are proud to work for the Agency. 90% of staff are committed to the Agency's aim of providing a quality customer service.
- 86% of those understand how their work contributes to the objectives of the Agency with 88% clear about what they are expected to achieve in their job.
- 61% agreed that the training received was appropriate and relevant to their job.

Our Executive Board has developed an action plan to ensure that issues and concerns identified from the staff survey results are driven forward.

A Disability Action Plan & Timetable conference was held in November 2006…

Diversity

During 2006–07, we organised and were involved in a number of events and publications, promoting the Agency as an equal opportunities employer.

- In 2006 we participated in the Asian Lifestyle Event in London, which provided us with opportunity to raise the Agency's profile and gain a measure of trust and respect. This event also provided us with an opportunity to raise the profile of EVL and increase interest in DVLA Personalised Registrations.
- In October 2006, the Government introduced the last major Diversity strand of legislation, the Employment Equality (Age) Regulations, which made it unlawful to discriminate against employees, job seekers and trainees because of their age. The regulations cover direct and indirect discrimination, harassment and victimisation.
- A Disability Action Plan & Timetable conference was held in November 2006, where 150 disabled staff were involved in workshops to identify ways in which they wanted to be engaged with and consulted, as well as actions that will be taken in the Agency. The results of these workshops were transferred into an action plan and will form evidence for the Disability Equality Scheme (DES) and become part of the Diversity Action Plan.
- In November 2006 in line with National Bullying Day, a Charter for Action was signed by the DVLA Executive Board to assure staff that they could feel confident that bullying and harassment was taken seriously by the Agency and complainants not discriminated against.
- In 2007, the Agency set up a Lesbian, Gay, Bisexual and Transgender staff network.

Sick Absence

In 2006–07, we exceeded our target to reduce sickness by an average of one day per person. Sick absence levels now stand at an average of 11.6 per person per year, compared to 13.2 days at 31 March 2006. This reduction has been achieved as a result of a range of initiatives including a successful pilot for early intervention in stress absences; appointment of Attendance Managers; revised case management procedures; health screening; and a new policy for Disability Adjustment Leave. However, we recognise that this level of sickness and absence is still far higher than desirable and the new SAP systems implemented should provide far greater data transparency to allow us to manage this aspect in a far more effective manner in future.

The NAO visited the Agency on October 2006 to conduct a review of Managing Attendance and initial feedback indicates the Agency's policies and procedures are in line with best practice. The one area this study highlighted for immediate action was for staff on long term sickness, who account for 61% of the Agency's sickness absence. We are now working on a number of recommendations made in their report, recently examined by the Public Accounts Committee.

Information Technology

New Systems Landscape (NSL) Freeze

The DVLA New Systems Landscape (NSL) is a comprehensive new Information Systems architecture that provides the basis for electronic services such as EVL, DRP and BART which services the post offices back offices. The NSL provides a modern platform for new services as well as a migration platform for our legacy systems.

Between April and July 2006, a number of problems arose that led us to review our existing systems risks (in particular the volumes of EVL transactions which significantly exceeded forecasts) and we decided that we needed a "Recovery Plan" implementing a "freeze" on the introduction of any new releases into our live systems environment from August 2006. Our action plan addressed a number of shortcomings and undertook a comprehensive review to identify any additional risks. As a result we now have a more strategic and structured approach to planning and releasing our services, which we regard as a major benefit. However, as a result of the "freeze", some parts of our Business Plan 2006–07 were delayed and were not delivered to their original timescales. There has been no impact on our strategic direction and we are now able to develop new services on a more robust infrastructure. Our Target End States will still be achieved and projects will be delivered with their intended benefits, albeit delayed in some cases.

The "freeze" was lifted on 18 January 2007 although there is still work to be done before we can claim to have a fully stable and resilient NSL and underpinning infrastructure. Our priority now is to address our release backlog of new functionality to the public, but we need to continue to apply sufficient technical resources to update and improve our technical infrastructure.

We have achieved re-accreditation for Government Secure Internet ahead of target…

Northern Ireland co-ordination

We have agreed the business case for integrating the Vehicle Systems of GB and NI, specifically the data migration, decommissioning the NI system and changes to the main Vehicles system at DVLA. Work continues to identify how best to transfer work from NI and plan the rationalisation of the NI Local Office Network. We expect to produce a detailed business case and plan for the full project by Autumn 2007, to deliver in Spring 2009.

Internal storage and management of data

DVLA's new Image Capture Data Archive (ICDA) system will provide the facility to scan all transactional documents and in turn create an Electronic Document Management System. Storage of documents on microfilm will become obsolete, and be replaced with a document capture/storage/retrieval infrastructure. ICDA will help deliver a new solution to capture Driving Licence Applications.

Access to the Government Secure Internet

We have achieved re-accreditation for Government Secure Internet (GSi) ahead of target and expect remaining actions to be completed by December 2007.

VSS replatforming

A series of technical difficulties (data migration, testing and GSi compliance) allied to the NSL development release freeze to stabilise the infrastructure delayed the new VSS platform from going live in November 2006. However, testing is now underway and a release is scheduled for August 2007, within the same budget.

ISO 27001 – Security

During the year, we carried out extensive work in our key operational areas, to produce the business impact assessments, risk treatment and security improvement plans needed for certification. However, conflict between the Gershon headcount targets and the additional resource required for ISO27001 compliance led to a decision to postpone certification until we can free resources from other areas. Targeted application of ISO27001 principles will be undertaken in key areas e.g. secure card production to ensure these conform to international standards.

Estates

Non-Territorial Working

By April 2007 almost 4,000 staff had moved to NTW and by the end of 2007 all staff based in DVLA's Swansea buildings (over 5,000) will be participating in NTW.

The success of the project in parallel with our Estates Transformation Project will ultimately allow for the exit of buildings currently leased by the Agency. It is further anticipated that the flexibility created by NTW will help to improve the way we work, both within our teams and across business area divides. We will have reduced workstations by 20% by 2009, individual space requirement to 5.75 sqm per individual and achieved a consequent clean desk policy through daily movement of staff between workstations.

Refurbishment

The main elements of refurbishment of the Swansea HQ site will be completed by July 2007, some two months early. Peripheral areas, including staff facilities, will be addressed during 2007–08.

Local Office co-locations

We will continue to improve the efficiency and effectiveness of our LO estate. The re-location of Stanmore LO to Borehamwood in March 2006 incorporated the provision of a new DSA Driving Test Centre. Further co-locations with DSA are planned for Shrewsbury (due by Summer 2007), and Birmingham (due Spring 2008). Other opportunities are being looked at, including a shared site near Truro.

Building Development

Developers are making excellent progress with the new two-storey off-site building that will house technology for production of the significant volume increase in driver licences production and our print services, part of our dual site strategy for business continuity and risk management. This is due for completion in December 2007 and has been classified as "Excellent" in terms of Building Research Establishment Environmental Assessment Method (BREEAM) ratings and will provide state of the art production facilities. The provision of 2 new (mirrored twin-site) data centres was negotiated, justified and contracts prepared towards the end of 2006–07 to provide the environment robustness, security and expansion capacity needed for the future. These will be delivered in January 2008.

By April 2007 almost 4,000 staff had moved to NTW…

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 entity's 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 entity's auditors are aware of that information.

Clive Bennett
Chief Executive and Accounting Officer
6 July 2007

2 Management Commentary on Detailed Performance

Operating Commentary

Section 1 of this Annual Report provides a summary of our performance against operational targets, together with a commentary on the major changes achieved during the year. The Accounts and the Notes that follow in Section 3 include a detailed analysis and explanation of the financial transactions and balances. These two sections should be read alongside the commentary below for better understanding of context and detail.

The DVLA is a complex organisation with over 7,000 staff (6,133 FTEs as at 31 March 2007), operating from 42 locations, with an income of over £613m and collecting some £5bn in tax. In financial terms it operates within HM Treasury guidance, which includes specific rules as to how it can fund its operations and set its fees.

As both an Executive Agency and Trading Fund, DVLA has a duty to fund its statutory activities and to break even over a number of years. Since only two-thirds of the adult British public hold driving licences, funding from fees on the basis of "user pays" has been judged the fair way to fund the registration activities for which we were established. Although DVLA is a full Trading Fund, it is unique in Government in that it is also monitored within the DfT Departmental Expenditure Limit (DEL) – the major impact of this lies in the way in which our fee related surpluses/deficits can be accounted for and the handling of capital expenditure.

The maintenance of our Driver and Vehicle Registers allows DVLA to contribute, alongside the Police, Courts and Local Authorities as delivery partners, to the achievement of key road safety policy objectives set for us by our DfT Ministers. However, the register itself allows us to undertake two other major streams of activity that generate income from a Trading Fund perspective:

- road tax collection and enforcement on behalf of HM Treasury and
- sales of the right to display personalised number plates or "cherished marks", together with the transfer required for the register to hold different vehicle registration marks to those originally allocated.

As we develop our infrastructure and improve access to our data, we are also generating more income from charges to external bodies – especially recharges to other public sector bodies for work we undertake on their behalf. Examples include the hosting of the DfT Shared Service Centre, covering DfT and its agencies, but based in Swansea. We expect this additional income to increase as Road Charging/Congestion Charging widens in scope as this is similar to support we already provide to Transport for London. This sharing of our infrastructure and leverage of use of our assets provides lower unit costs for all those who participate, particularly of benefit in capital intensive and specialist areas such as secure card production.

Operational Activity Volumes

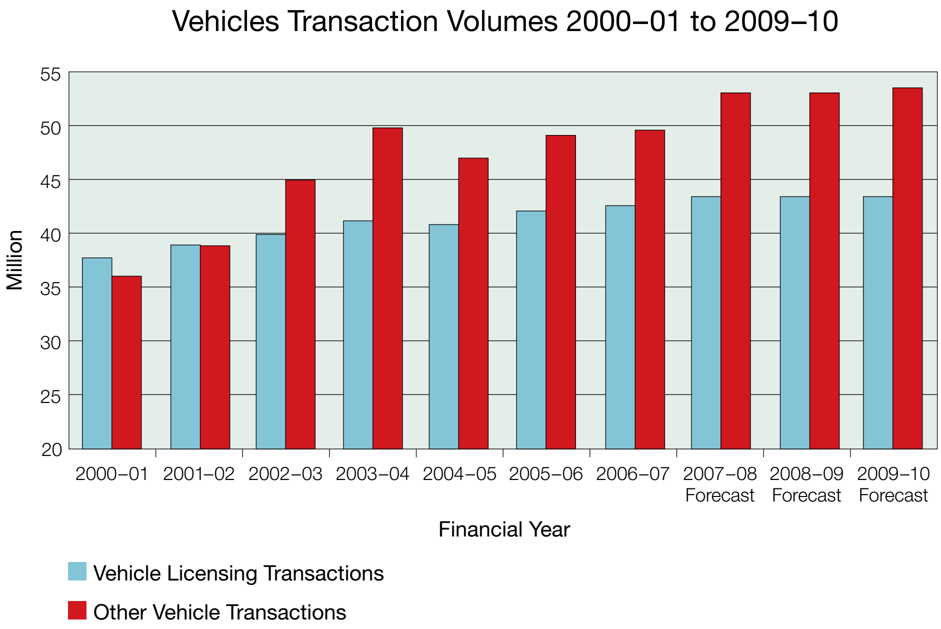
Although we account for our statutory fees as a single figure in our Annual Accounts, we provide services to our customers through 62 different transaction streams. Fees are only levied on 7 out of 62 transaction streams. The Driver and Vehicle transactions, although underpinned by statutory obligations, are predicated mainly on the principle of self-notification. There are good policy reasons in terms of compliance that the key chargeable transactions are based on entry into the systems, for example the first registration of a vehicle when responsibility can be discharged through the dealer (supported by the AFRL system) and change notifications are "free" of charge. From a financial perspective, this makes the current funding regime unstable in that DVLA cost coverage is dependent on a relatively small number of the transactions it processes, but it does mean that DVLA is better equipped to fulfil its statutory purpose of maintaining accurate registers.

For a full discussion of the relationships between transaction volumes, related costs, fees and policy drivers, readers are referred to the Fees and Charges public consultation papers July 2006 and the outcome report.

Statutory Activities

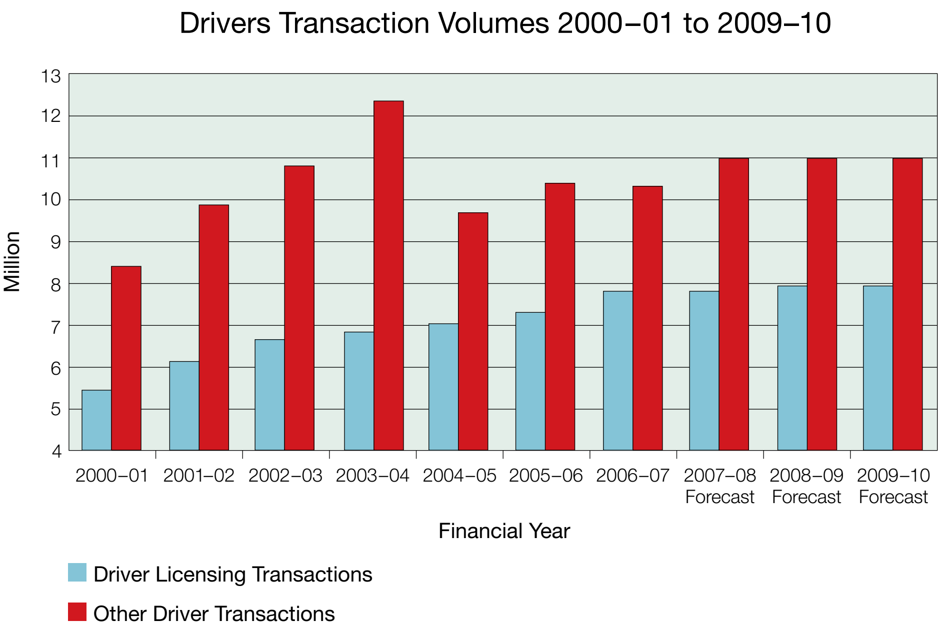
Vehicles

Between 2000–01 to 2006–07, our vehicle transaction volumes increased from 73m to 92m an increase of 26% over the period. The graph below shows the total transaction volume growth split between VED licensing and other vehicle transactions over the last 7 years.



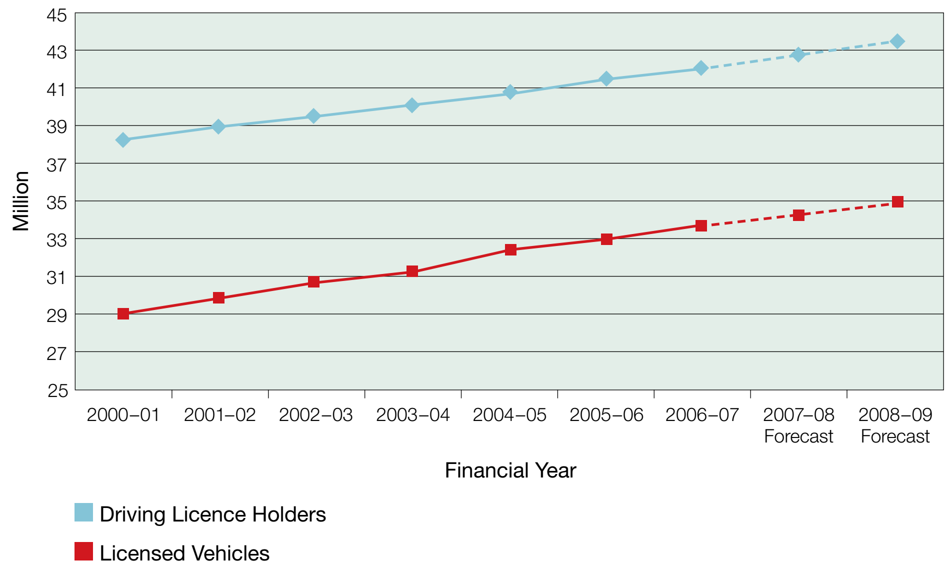
Drivers

Between 2000–01 and 2006–07, our driver transaction volumes increased from 14m to 18m an increase of 29% over the period. The graph below shows the total transaction volume growth split between direct driver licensing transactions and other driver transactions. We issue approximately 7m new driving licences (provisional or full) each year.



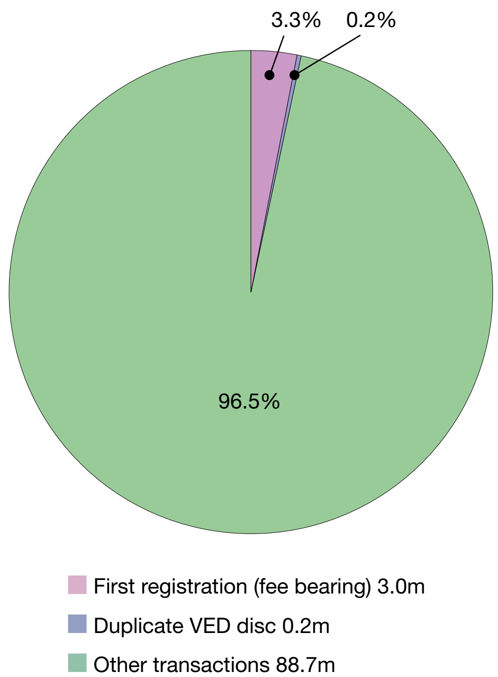
Although there have been legislative changes during the period that have generated new transactions, one of the key drivers of growth in transaction volumes has been an increase in the numbers of active drivers and vehicles on our registers. The graph below shows the growth between 2000–01 and 2006–07 from 66m to 76m active records, a 14% increase over the period.

Growth in Driving Licence Holders & Licensed Vehicles 2000–01 to 2008–9

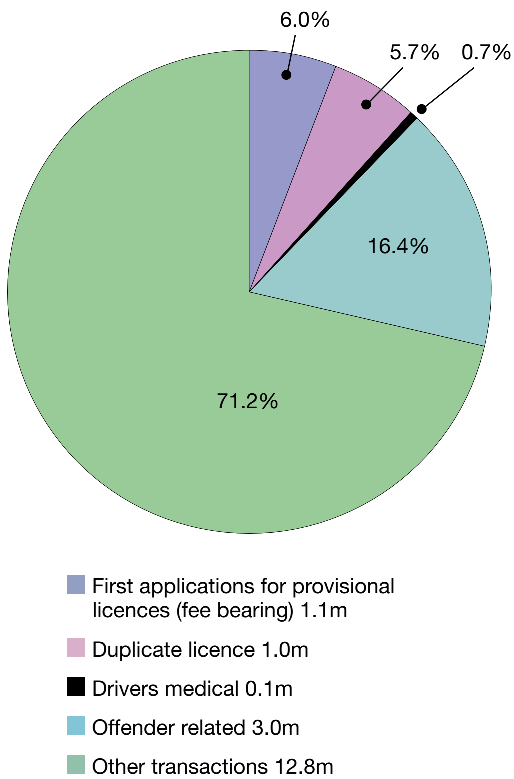


The split of vehicle and driver transactions into their major constituent categories has been relatively consistent during the period, the figures for 2006–07 are shown below to illustrate the detail. Only 3m of the 91.9m vehicle transactions and 5m of the 18m driver transactions are fee bearing. The transaction figures exclude the 12m of the 23m calls to our contact centre that are purely for enquiries.

Vehicles volumes of transactions for 2006–07



Drivers volumes of transactions for 2006–07



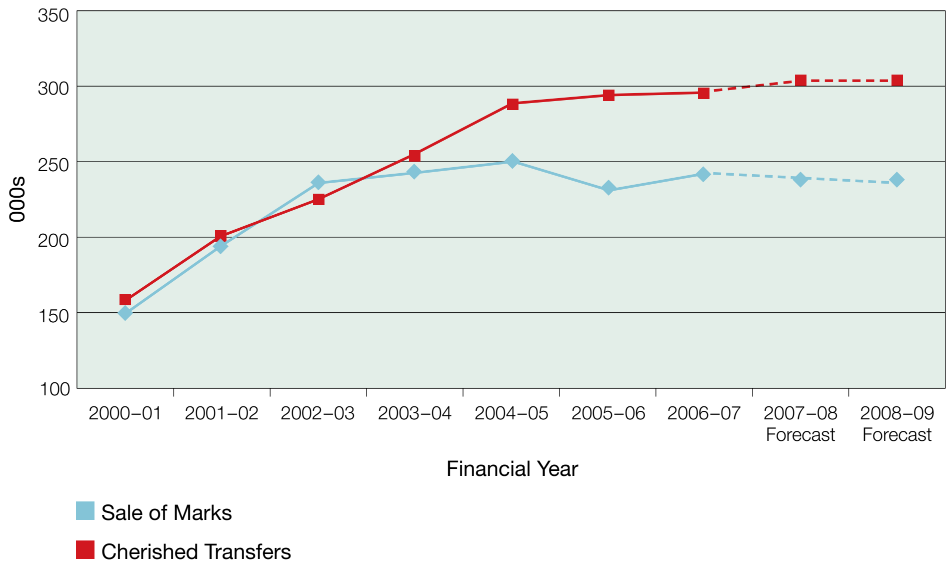
There are a number of key initiatives arising from legislative changes that will increase the transaction numbers processed significantly over the next two years (specifically in 2008–09) – especially for drivers:

- implementation of Continuous Insurance Enforcement (CIE) – Road Safety Act 2006
- commencement of the 10 Year Renewal cycle – Road Safety Acts 1998 and 2006
- potential commencement of the paper licence recall – Road Safety Act 2006
- scaling-up of the Tachograph engagement (card production and pan-EC enquiries) – European Directive
- Certificate of Professional Competence support for DSA – European Directive
- registration of off-road vehicles – legislation anticipated.

Sale of Marks (SoM) and Cherished Transfers (CT)

The DVLA passed another landmark during 2006–07, as it has now contributed over £1bn to the Consolidated Fund from its SoM scheme since it began in 1989. The volumes of transactions for SoM appear to have reached a plateau at just under 250,000 a year (243,000 in 2006–07: up from 157,000 in 2000–01) whilst those for CTs continue to rise (294,000 in 2006–07: up from 171,000 in 2000–01). This is perhaps to be expected as the SoM market matures, though refreshed by the release of new attractive marks and the growing stock of cherished marks in circulation continues to result in higher transfers as cars change owners.

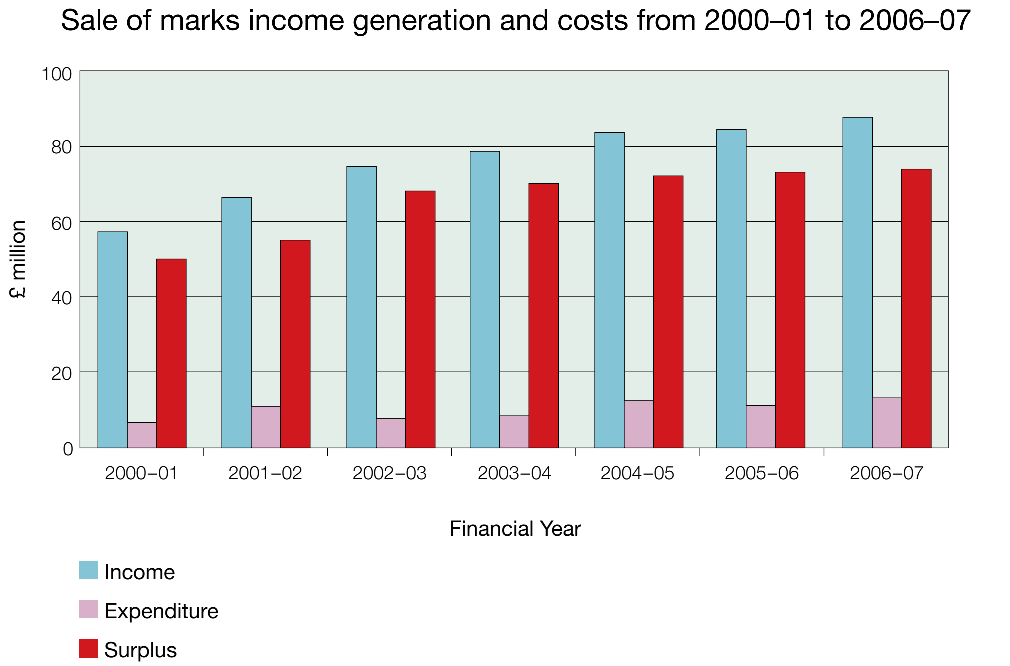
Volumes of Sale of Marks and Cherished Transfers

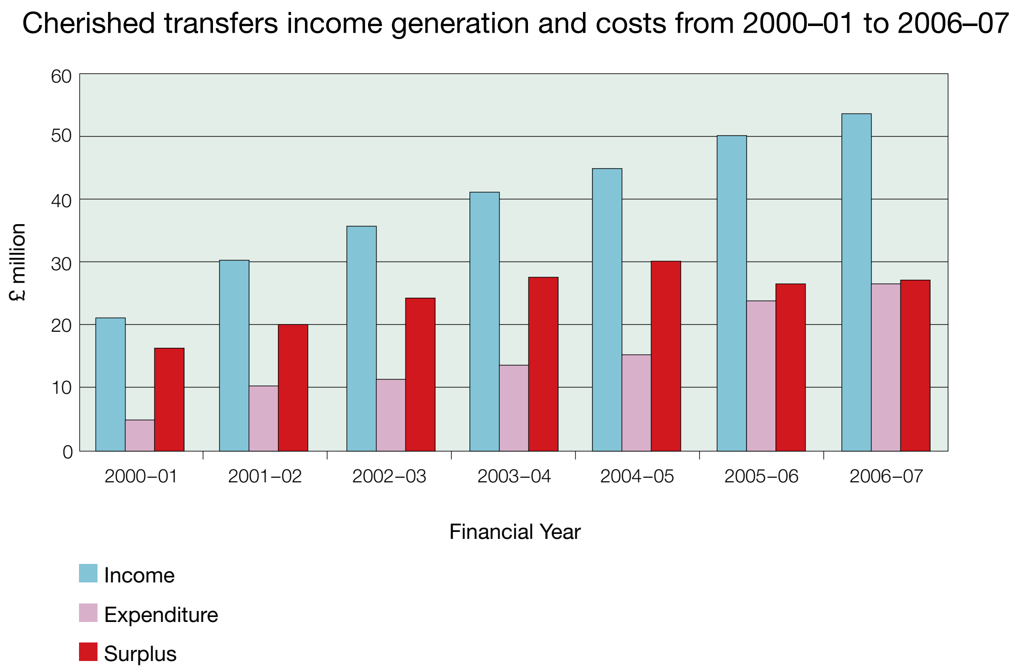


Management of the individual marks to be released and the policy over the release of the different prefixes is retained at DVLA to ensure the continuing sustainability of the market. However, we use private sector partners to inform our marketing decisions, including market price sensitivity, and this has proved to be operationally effective because it involves specialist experience and skills. The SoM web-site is one of the most visited in Government, with over 750m hits each year.

The CT fee level has remained static at £80 since it was introduced as a policy measure to dampen transfer volumes (at a level of parity with the then annual VED level), but we are seeking to revisit this next year in parallel with service improvements.

The financial results of the two transaction streams are summarised below.





Next year will see two major changes delivered:

- the website will be redeveloped to provide on-line payment facilities with credit cards and, potentially, payment by instalment through direct debit to make purchase more attractive
- the CT transaction (currently the most costly of transactions for DVLA to process because of the ownership and entitlement checks involved) will also be re-engineered to improve customer service and efficiency.

Business Financial Commentary

Fees and Costs Principles

The DVLA Trading Fund has three major areas of activity and these are funded through:

- Fees & Charges Receipts (statutory and Wider Markets activity)
- Service Level Agreements (SLAs) – with DfT in respect of VED Collection and Enforcement on behalf of HM Treasury, DfT and with other Government bodies for other Shared Services
- Sale of Marks/Cherished Transfers receipts.

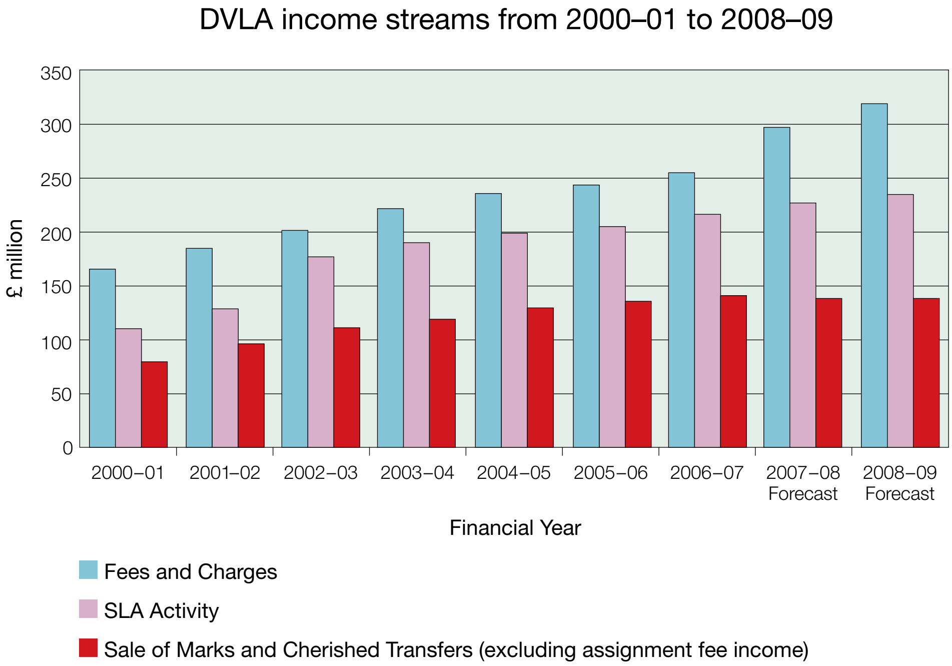
Although all three sets of activities rely on the accuracy and maintenance of the same two registers, they are each monitored and costed separately. DVLA has no statutory powers to exchange income or surpluses between the three activity streams. The work in maintaining our statutory registers is funded through fees and charges while the tax collection and enforcement activities are funded fully by HM Treasury. The market-based Sale of Marks activities are funded through sales revenues, with the surplus surrendered to the Consolidated Fund. After analysis of direct and activity specific costs, the common costs of systems investment and update, together with overhead running costs, are allocated between the activities as directed by the Office of National Statistics (ONS) in 1993.

Surpluses on the statutory activities have to be used for the purposes for which they were collected. For this reason, DVLA (or DfT) cannot cross-allocate these surpluses in following years between the three main activity streams, or vire them for other purposes. DVLA has legislation in place (Section 102 Order) that allows us to apply surpluses across year ends and for the purpose of investment (for example in computer systems renewal). However, it has a duty to set its fees for future periods that will result in a balanced overall position so that, once systems investment is accounted for, fees should be reduced where possible.

DVLA sets its fees to cover its costs and has rebalanced its fees over recent years, increasing those for first vehicle registration but decreasing or abolishing others where this makes sense in terms of efficiency (e.g. upgrade fee for full driving licence), compliance (e.g. upgrade to photocard DL) or policy (e.g. vocational driving licences or Over 70s renewals). The combination of changes in the scope of operations DVLA is required to deliver, Gershon savings being achieved, increasing numbers of electronic transactions and developments in legislation makes the future fees calculations complex. The processes involved include public consultations followed by HM Treasury agreement, the long-term balance of costs with fees is still a primary objective.

Income

The three income streams are summarised below. It is only now that the non-VED SLAs have become material enough to warrant separate disclosure in our accounts and this provides an indication of the growing level of cross-Government work DVLA is involved with, therefore, the SLA income is included as a single figure to provide a consistent comparison. During the last 7 years the total annual income has risen very significantly, from around £350m to over £613m, reflecting the major expansion of activities in both volume and scope over the period. Of course, this does now include approximately £115m surplus within our SoM/CT income stream that is surrendered directly to the Consolidated Fund so is not available to DVLA.



With regard to the above individual income streams we set out below a comparison with the previous year (PY) and Business Plan (BP):

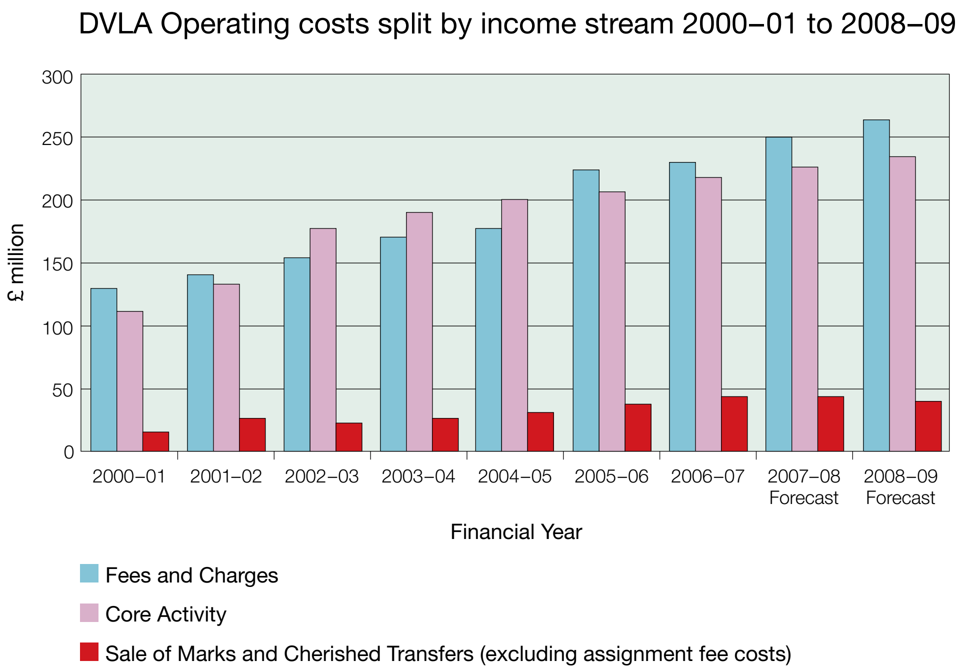
Statutory Fees & Charges Income increased to £293.2m (PY – £287.0m: BP – £285.3m). The key area of additional receipts was smartcard Tachograph, but the income received from smartcard Tachograph issuing was disappointing at £7.0m (BP – £10.1m) as we continue to wait for the rollout of Tachographs in new vehicles and take-up from the vocational drivers.

VED SLA Income increased for VED collection to £131.3m (PY – £123.9m: BP – £131.1m) as the VED licensing volumes rose by 1% to a new high of 45m. The SLA income directly reflects DVLA's costs of delivering its agreed service levels and we continue to deliver productivity gains in the enforcement area and are seeing unit cost decreases for collection as we encourage channel shift into electronic relicensing. Our income for VED collection and enforcement is secured through DVLA delivering against separate volume and unit charge based SLAs for the activities that underpin the two functions. The SLAs are overseen by a Governance Board comprising HM Treasury, DfT and DVLA. The Collection SLA delivered £131.3m (PY – £123.9m), whilst the Enforcement SLA delivered £85.4m (PY – £81.0m). VED performance is dealt with in more detail on pages 47 to 53.

Other SLA Income increased to £16.1m (PY – £9.9m: BP – £29.8m) as we continued with our implementation of the DfT Shared Services and increased the work we did for other agencies. This trend seems set to continue as DVLA extends its data sharing and provision through access by more data partners. The shortfall against the Business Plan predicted income results from a greater capitalisation of costs than anticipated, with the capital cost covered through Government Grant rather than as SLA income.

Operating Expenditure

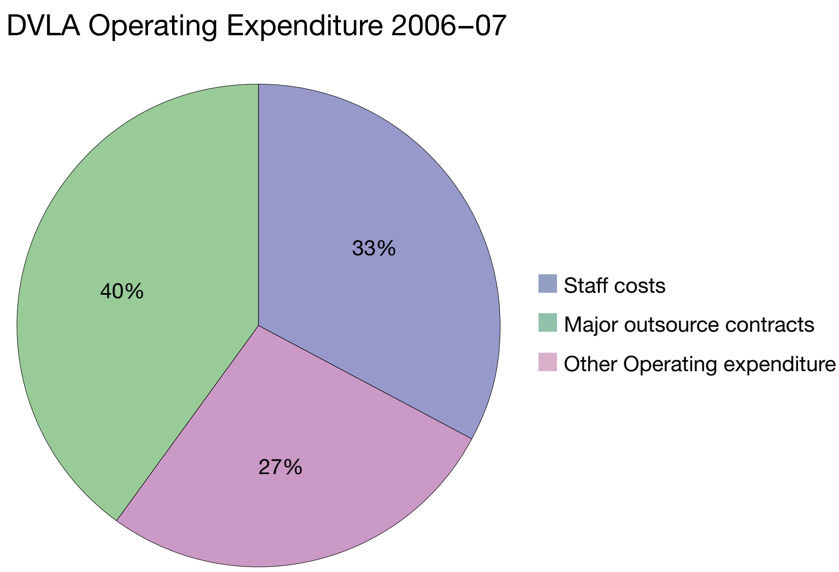
The operating expenditure can be split between the activity/income streams as follows:



In terms of expenditure classification, there are three major categories:

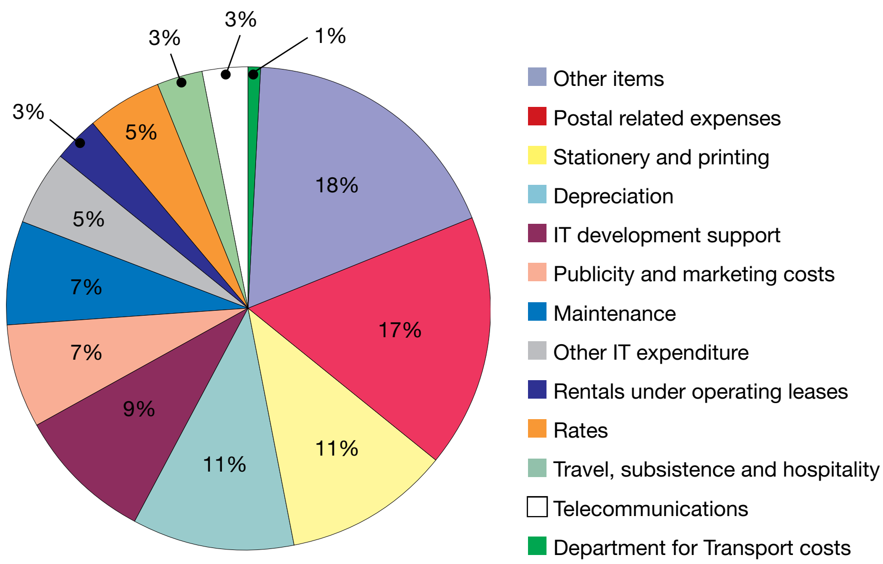
- Staff related – employment and development costs
- Major outsourced contracts – Post Office® (face to face service), IBM (IS services), LST (Accommodation and Facilities Management), NCP (Wheel-clamping), British Medical Association (BMA) governed costs (Medical Examinations), DVA (Vehicles agency work in NI), Serco/Premier Motor Auctions (SoM)
- Other Operating Expenditure.

The split of expenditure has been remarkably consistent over the last two years so that only the exact proportions for 2006–07 are shown below. It is relatively even between the areas, though it is striking that the largest element (at 40%) is that of outsourced contracts. This helps explain the unusually low proportion of staff costs in comparison to other service delivery agencies (for such agencies and NHS Trusts the staff costs proportion is often double the DVLA percentage of 33%).



The “Other Expenditure” area, at £131.0m representing 27% of overall costs, can be further broken down as follows:

Further analysis of Other Operating Expenditure 2006–07



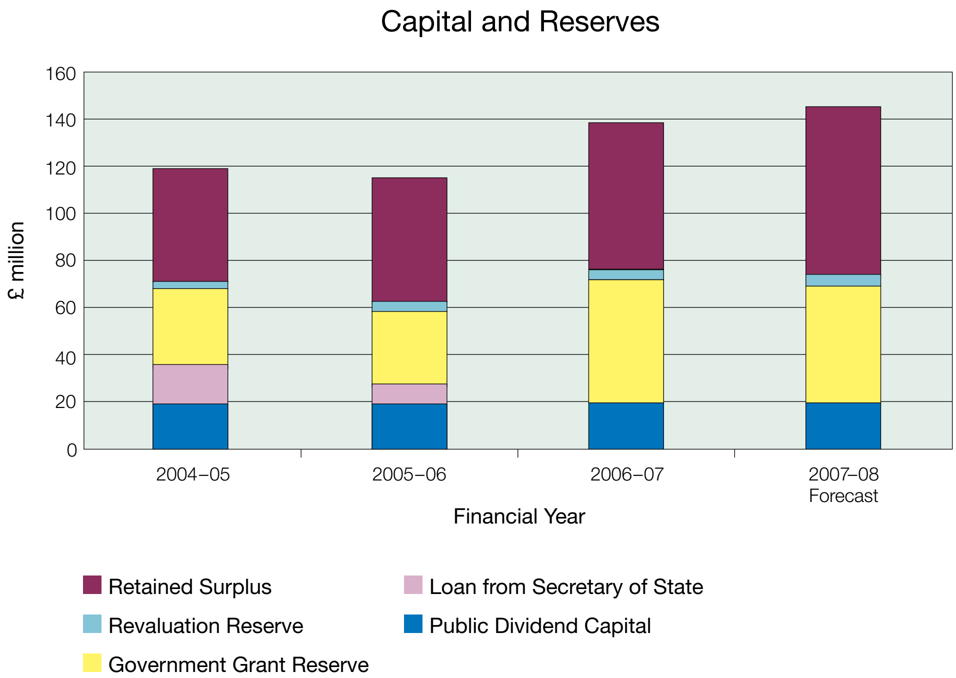
The largest single area of expenditure at £20.5m is that of postal related expenditure. This emerged in a recent NAO report as a model of best practice, with DVLA working at maximum discount levels with Royal Mail but still seeking to reduce costs through other routes. The cost level reflects the scale of this activity, with over 110m outgoing items of mail annually.

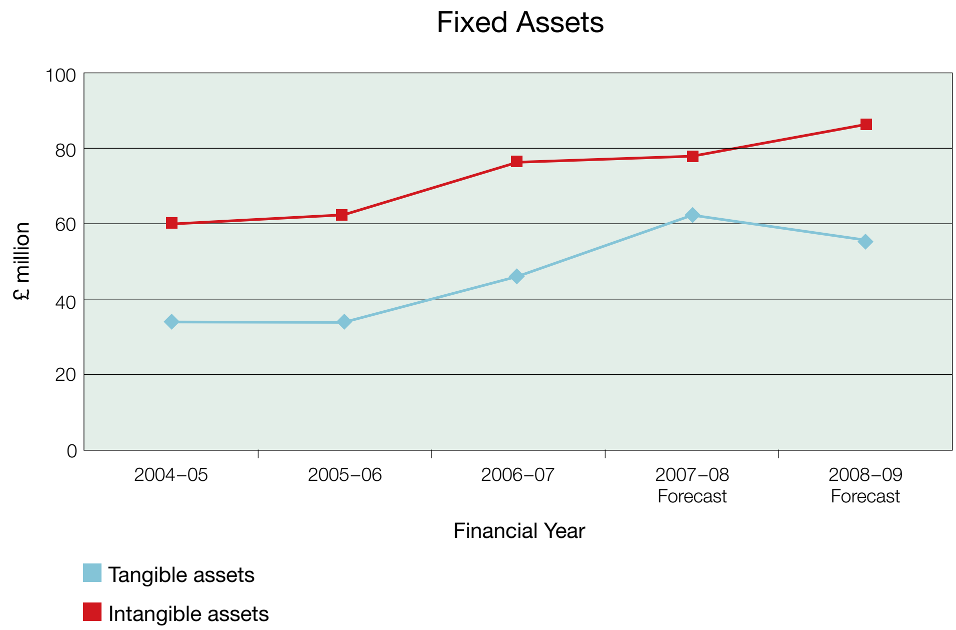
Operational Surpluses and Maintenance of Capital Base

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 contain elements for maintenance and renewal of the VED enabling elements of the Vehicles Systems (and proportion of relevant estates expenditure). In the same way, renewal of intangible fixed assets such as SoM software is provided through retention of sales receipts through agreement with HM Treasury.

In 2006–07 DVLA recorded a retained revenue surplus of £9.8m (PY – £5.2m). The first three years of Trading Fund operation have seen surpluses of income over expenditure totalling £54.6m, to add on to the initial £7.6m recognised in the Trading Fund Order as fees collected in advance of services delivered, giving a total operating reserve of £62.2m at the end of 2006–07. This operating reserve has been used to cover the repayment of the original Secretary of State loan (£18.788m) and reduction in Government Grant Reserve as the capital asset base is maintained (£5.961m) as well as to underpin the capital investment over the period 1st April 2004.

The renewal and ongoing maintenance of our capital asset base was catered for in our original Trading Fund projections, agreed with HM Treasury, through the generation of surpluses as described above. These surpluses were also required to enable DVLA to repay its original loans from DfT and replace the Government Grant Reserve as the related assets are amortised replacing one set of reserves with another. The following figures show how the overall capital base is projected to change as our fixed assets are updated and improved.





Our longer term projections suggest that we reach equilibrium in 2009 when our depreciation and ongoing capital investments come into balance. Discussions continue with HM Treasury as to how this capital funding should be handled technically in future and how this relates to both our fee levels and Departmental Expenditure Limits. Note that figures prior to Trading Fund status are not included in the graph above as the funding regime was entirely different.

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.

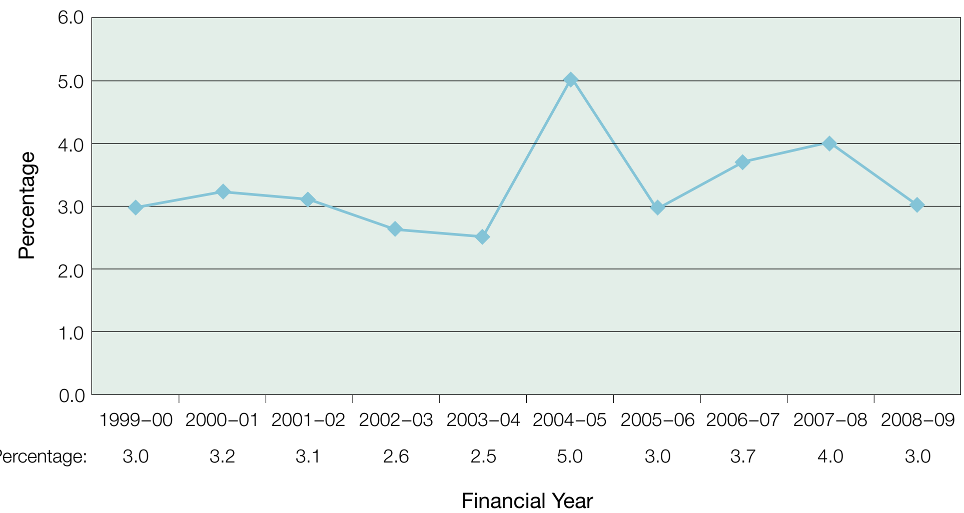
In terms of estates, the DVLA holds land/freeholds for its main operations centre in Morriston and long leasehold for the Richard Ley Development Centre in Swansea Vale, which represents the sustainable core business requirement. The LST PFI contract provides for refurbishment of the Morriston site by March 2008, with facilities management then provided across the full freehold/leasehold portfolio until 2025. There are no additional properties or surplus estates receipts anticipated. The Swansea Vale/Fforestfach buildings are leasehold, as is all the Local Office accommodation.

In terms of computer systems, the technology base itself is provided through 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 2007–12 sets out a comprehensive routemap for their development.

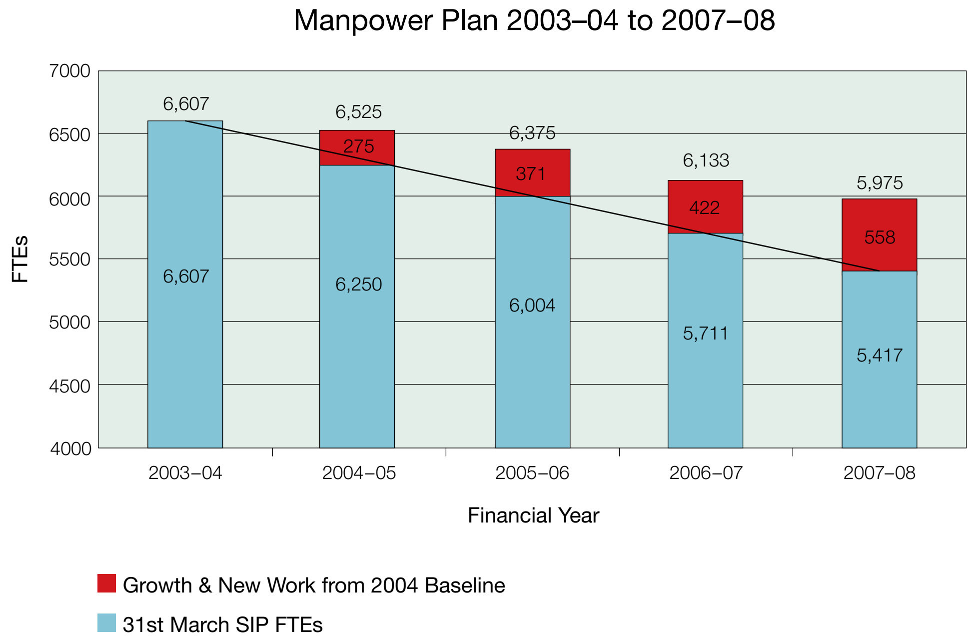
Value for Money

The DVLA developed a comprehensive VfM Strategy in 2002–03 and has been working on delivery since that time, delivering consistently against the annual efficiency targets set by DfT. In 2004, the DfT/DVO group set DVLA a delegated Gershon Review target of delivering £59.8m in VfM expenditure gains by 31st March 2008, out of a total DVO group target of £70m. This was then profiled in such a way that the DVLA target for 2006–07 was to reach a gain of £46.3m. DVLA achieved the first two year profile targets, but will fall short of the 2006–07 target by some £2.1m as it achieved gains of £44.2m by the end of the year. However, a re-evaluation at DVO group level has now adjusted the DVLA end target contribution to £50m (just over 70% of the Group target). On this basis, DVLA remains ahead of its final target delivery profile although the final year delivery remains challenging due to cost increases in key areas of expenditure such as, postal costs from Royal Mail, medical charges from BMA and service delivery costs from the Post Office®. The figure over the page shows the efficiency history over the extended period.

Efficiency Achievement



As well as financial VfM gains, DVLA was also set an absolute headcount reduction target of 500 Full Time Equivalents (FTEs) irrespective of any additional work absorbed and volume increases. In 2006–07 a further 75 FTEs were added to the net figure of 500 to offset the DVLA workload transferred to the Shared Service Centre and 57 FTEs taken off to reflect staff on long term sick giving a final target of 5,975. This reflects a net reduction of 632 FTEs.



The 632 net reduction target represents a 1,132 (17%) reduction against the 2004 baseline activity.

At the end of 2006–07, DVLA employed some 6,133 staff (excluding DfT SSC staff) and was 42 ahead of its original profile target of 6,175. In addition, to support the go-live of SSC on 1 April 2007, the Agency employed 234 FTEs working on project implementation and delivery of SSC core services against an allowance of 257 FTEs at 31 March 2008. The main reductions in staff numbers have occurred through value for money and productivity efficiencies, rationalising enforcement and Local Office work, Organisational Change Programme (OCP) restructuring and delayering, Image Capture Data Archive (ICDA), Automatic Driving Licence Issue (ADLI) and the impact of SSC workload shift. There remain 158 FTE net reductions to deliver in 2007–08. This will not be easy because of further additional work to be absorbed but we remain confident that the final Gershon target will be achieved. The workforce plan is carefully monitored on a monthly basis through the robust Integrated Resource Management (IRM) processes in place and are reported monthly to the DVLA Executive Board. A recent DfT assurance Audit on the DVLA Workforce Delivery Plan gave a 'substantial assurance' rating to the monitoring and review controls and procedures in place at DVLA to ensure that the workforce reduction target at March 2008 is achieved.

The systems stabilisation freeze last year resulted in delays to the delivery of systems changes, which had been expected to deliver significant productivity benefits. This has meant a great deal of pressure on the Agency in terms of slipped benefits realisation and we have had to move back delivery of new initiatives such as Continuous Insurance Enforcement to 2008–09 to ensure the additional new work (emerging after the Gershon targets were set) does not compromise our achievement of this target.

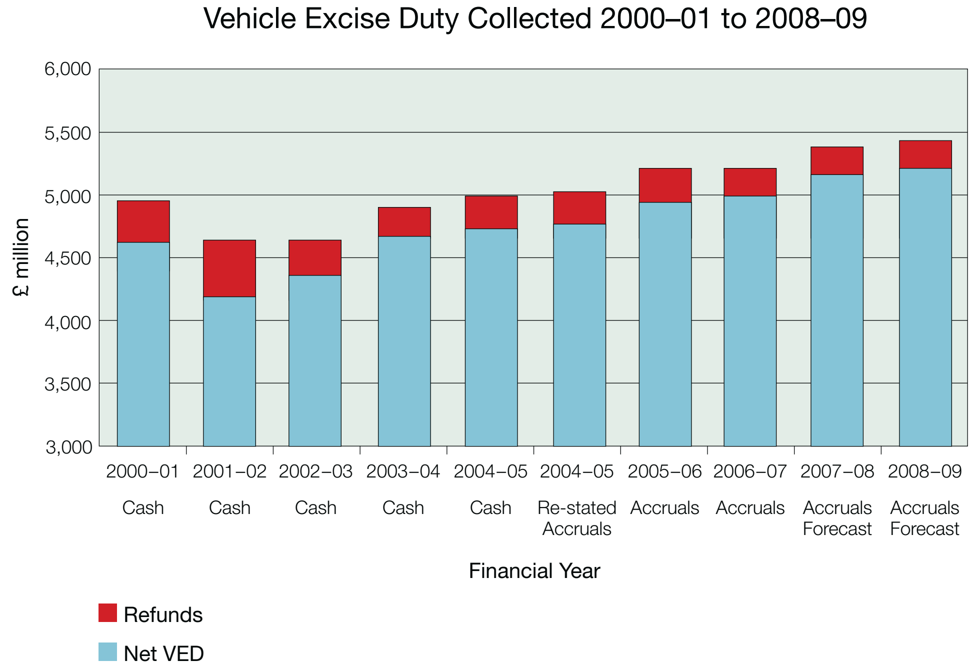
The Business Plan 2007–08 sets out the workforce forecasts and anticipated financial gains in some detail. These are currently being extended past the March 2008 date to provide estimates for the Comprehensive Spending Review 2007 (CSR07). In broad terms, the emphasis for DVLA will continue to be automation of its processes, improving VfM wherever appropriate and working across Government to reduce waste.

VED Performance Summary

Collection

Total VED Collected

We continue to see a gradual increase in the total of VED collected with 2006–07 producing receipts of £5.22bn (gross accruals), an increase of £29m over the previous year. The value of refunds made has remained stable at £236m (PY – £237m).

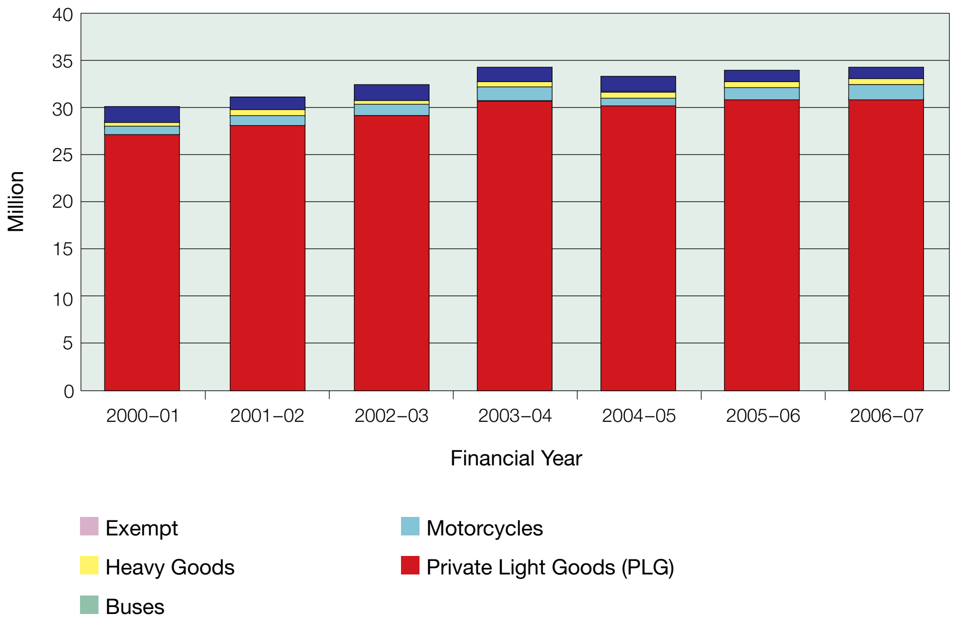


There are a number of factors that impact on the amount collected; changes in VED rates, the number of vehicles, shifts between 6m and 12m payments and the evasion rate. Since the 2003–04 Gershon Review baseline year, the DVLA VED cash receipts have increased from £4.92bn to £5.35bn, an increase of £420m (9%), although all four factors noted above have contributed.

Number of Vehicles by Main Tax Class

During the last 7 years, non-exempt licensed vehicles have increased in number from 28.9m (2000–01) to 33.1m (2003–04) to 33.3m (2006–07). The numbers have risen by 10% over the whole period, although have been relatively stable during the Gershon Period from 2004 onwards. However, licensing transactions have increased in number because of a drift from 12 month to 6 month licensing and the introduction of SORN.

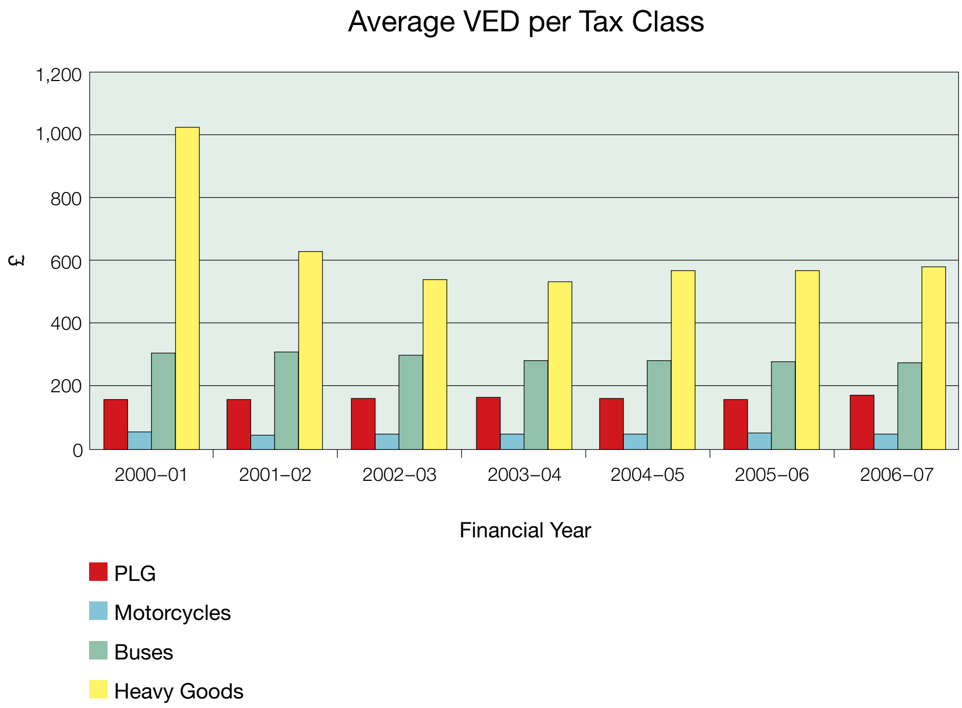
Licensed Vehicles by Class

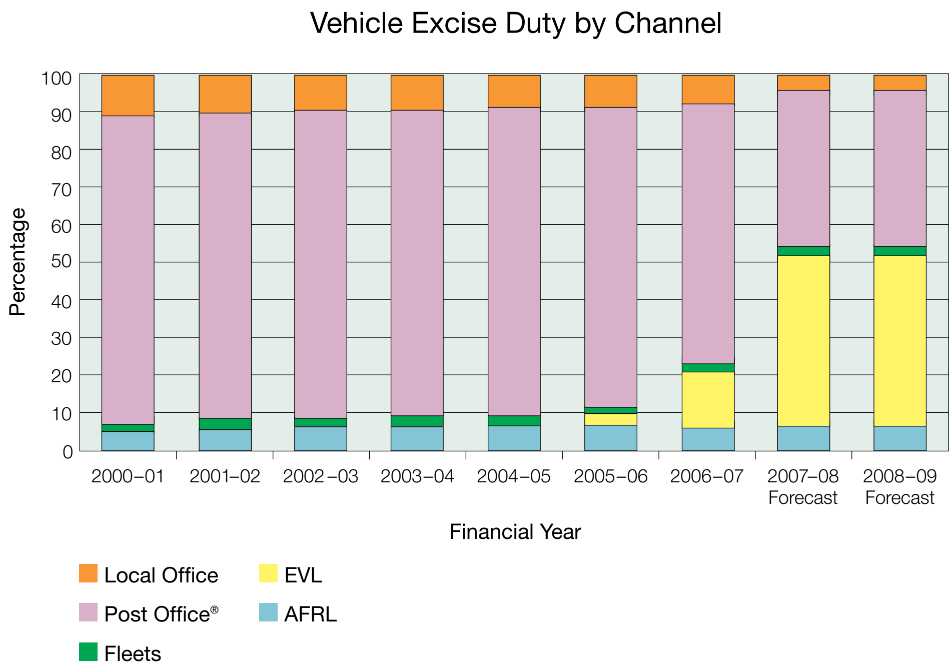


Average VED by Tax Class

The average VED collected analysed by Tax Class over the period presents an interesting progression, with three key features:

- the average receipt for HGVs has decreased from £1,020 (2000–01) to £582 (2006–07), so that with a relatively stable number of around 0.5m such vehicles this has decreased the tax burden on the sector by around £220m
- the average receipt for PLGs (cars and light vans) has remained relatively stable over the entire period at £156.26 (2000–01) and £153.20 (2006–07), showing that the tax impact of graduated VED introduced has been almost tax neutral – the increase in overall receipts has been mainly a result of increasing numbers
- the average receipt for motorcycles has remained small and actually decreased – from £54 (2000–01) to £43 (2006–07).



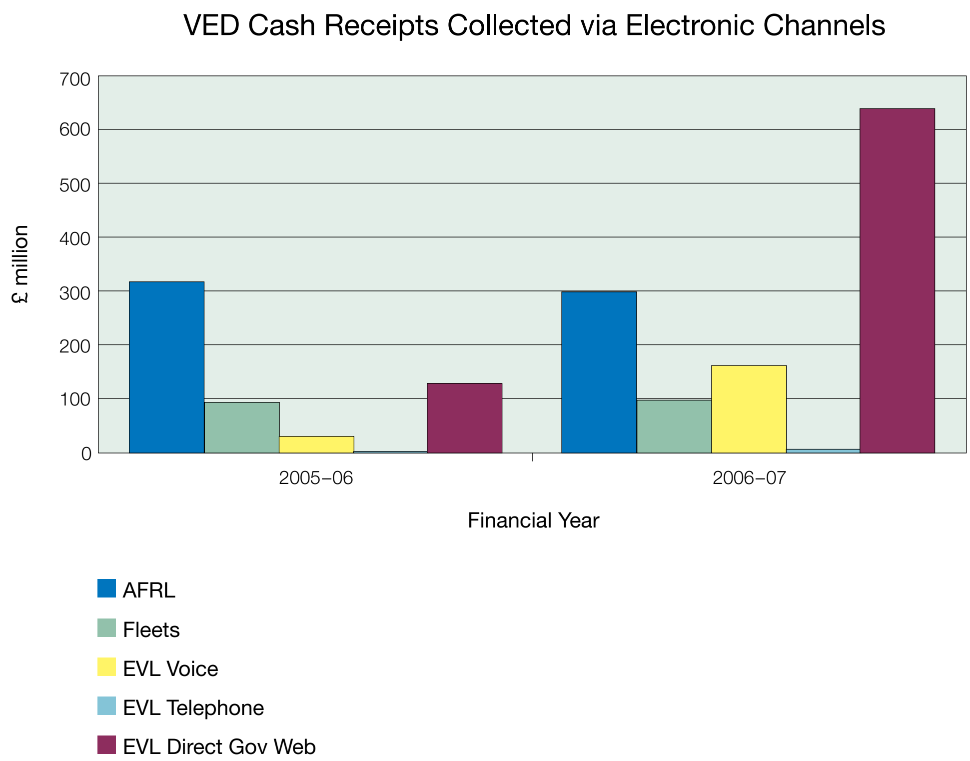


There is a striking shift underway in terms of how VED is collected, with EVL (introduced in 2005–06) accounting for approaching 20% of cash receipts in 2006–07 and forecast to increase further to over 40% in 2007–08, given current trends in take-up.

The Automated First Registration and Licensing (AFRL) volumes through dealers remained stable during this period and accounts for licensing of almost 85% of new vehicles. The Local Office licensing also remained fairly constant in terms of the more complex licensing transactions. The major shift has been from the "over the counter" transactions undertaken through the Post Office network into the electronic channels. As far as DVLA as an organisation is concerned, the shift to electronic transactions is even more pervasive as a result of the introduction of bar-coding transactions and processing through the new Post Office Horizon infrastructure. Whilst we have efficiency gains through the electronic channels and will be seeking to maximise these over the next two years, we have to be mindful of social inclusion and customer service and will keep alternative face-to-face channels open.

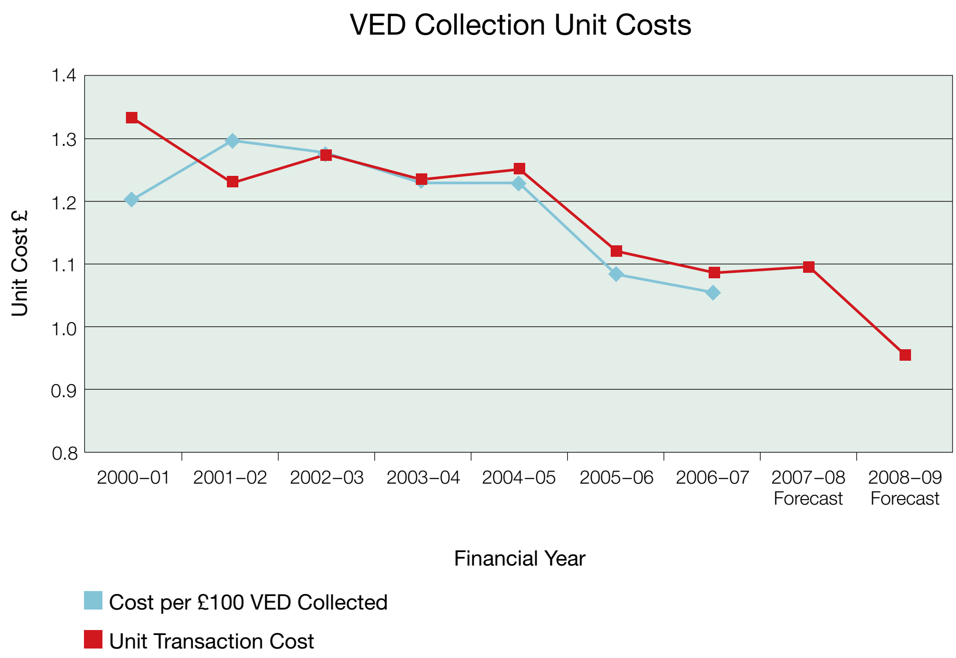
Cash Receipts via Electronic Channels

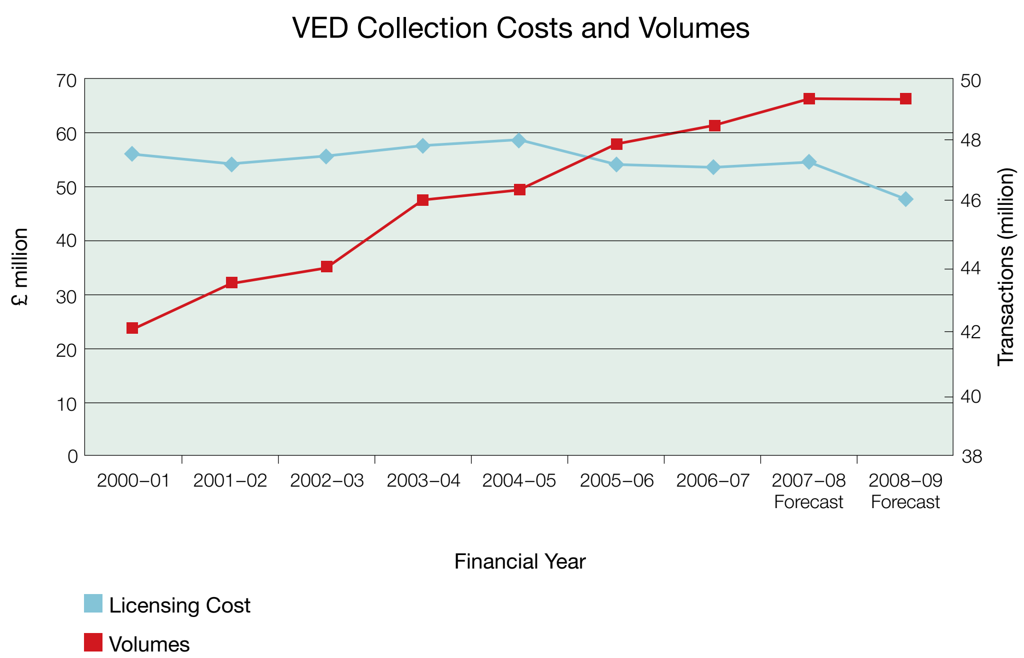
The channel shift in terms of volumes is clearly reflected also in the way in which receipts have been collected. Between the EVL automated voice system and the EVL web transactions, these channels now account for some £800m of the cash receipts and this is growing rapidly.



Costs of Collection and Unit Cost (per transaction)

The costs of collection over the period have increased gradually but the unit costs continue to reduce through productivity, even though we are still on the volume curve to make full use of the initial investment in the EVL systems and will soon be in the position where economies of scale reduce the unit cost of the electronic transactions significantly.





Evasion

The key targets set for DVLA in terms of VED collection are framed in terms of reducing the VED evasion rate and loss of tax revenue for HM Treasury but also in terms of persistent offenders, though measurement of this is also dependent on the evasion rate. The Agency's key targets in relation to the collection and enforcement of VED are to:

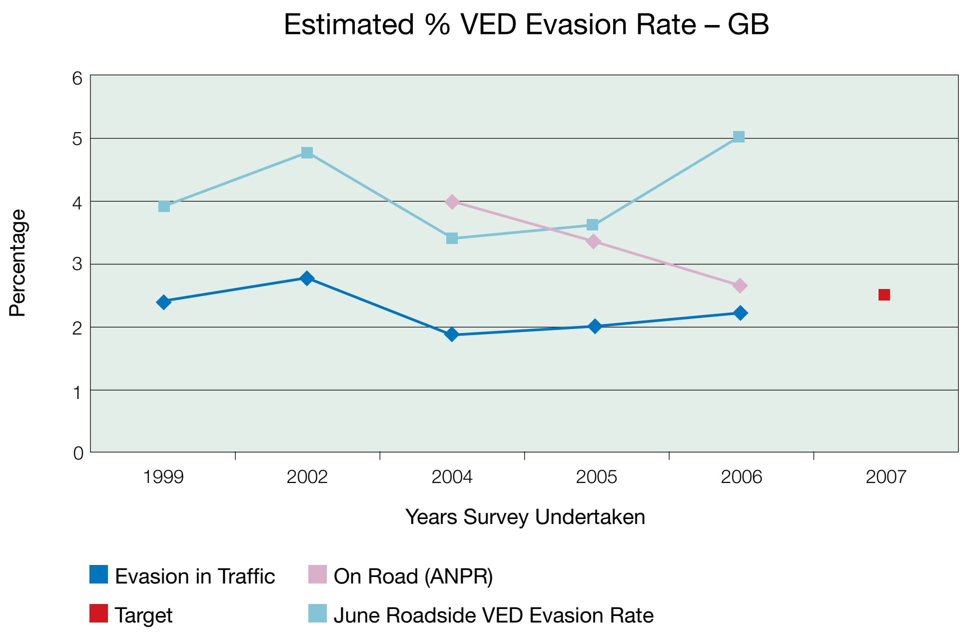
- Increase the amounts of VED collected (excluding amounts due to increases in rates, 6/12 month tax disc balance, mix of graduated VED bands or total number of vehicles in stock) by reducing VED evasion by £70m per annum by March 2008 to achieve the Gershon target
- Reduce VED evasion loss to 2.9% by 31 January 2007 and to 2.5% by December 2007
- Reduce by 50% the number of persistent evaders of VED from the June 2002 figure, by 31 January 2007.

The method for measuring VED evasion over recent years has been to use the DfT statistical model, driven from data captured through the roadside surveys undertaken annually in June. This provides, through manual selection of vehicle registration marks at a large number of sites selected around the UK, a statistically meaningful sample subsequently matched against the DVLA database to assess VED compliance, a measure of observed evasion in traffic. A number of weightings and extrapolations are then applied to achieve an overall assessment of VED evasion – correcting for multiple sightings, assumed relative travel distances of VED compliant and evading motorists etc.

The roadside survey for 2006 returned an evasion rate of 2.2% in traffic, concluding that the overall VED evasion rate was 5% (3.6% for 2005, 3.4% for 2004 and 4.8% in June 2002) and the resulting calculated tax loss to HM Treasury was £217m (£147m for 2005). Our 2.5% overall evasion target and additional £70m tax collection target imply a financial loss rate of approximately £109m. On the basis of these measurements, we have to conclude that the persistent offenders target is unlikely to be found to have been met and we may not meet either the evasion target or the additional tax collection target, although we will work strenuously towards the targets.

Estimated Evasion Rate as Percentage

The results of the surveys over the period are summarised below, showing evasion in traffic and the statistical evasion conclusions drawn. The DVLA results achieved from its own ANPR cameras over the latter years of the period are superimposed, though the number of vehicles are far smaller and the targeting tends to be biased towards problem areas as we use the ANPR cameras as a deterrent.

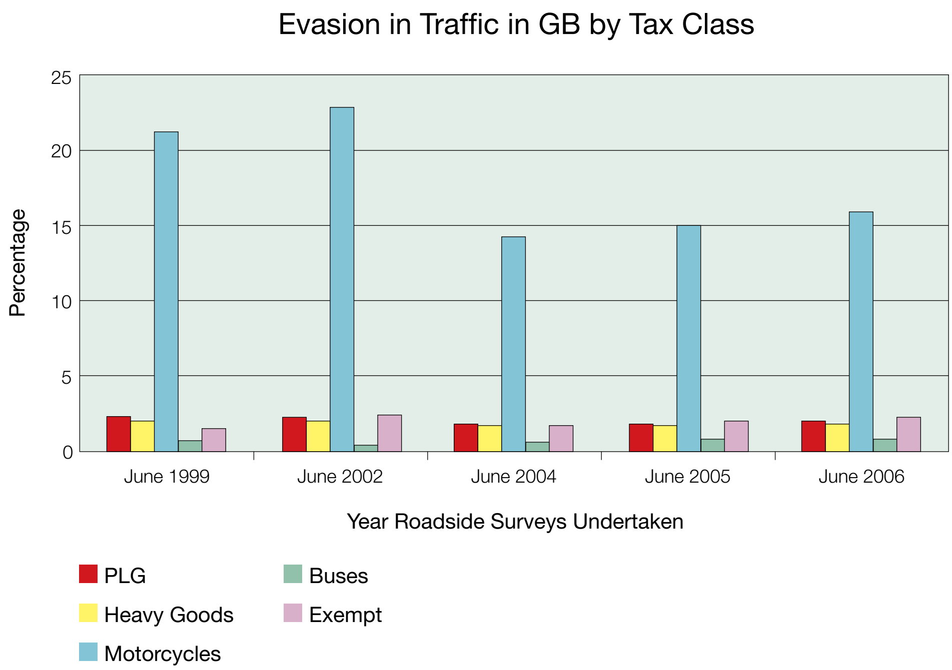


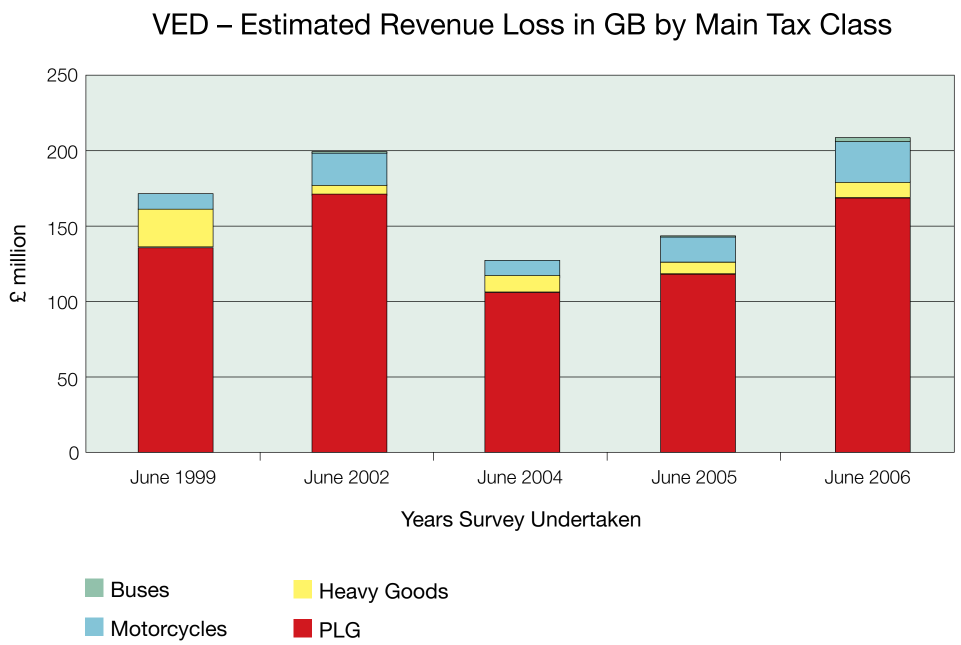
Roadside surveys were not undertaken in 2000, 2001 and 2003.

Whilst DVLA was relatively content with the comparative results in 2004 and 2005, given the margin of differences between the internal and external measures, the results of the 2006 survey came as a major surprise. We note in our Statement on Internal Control (SIC) pages 60 to 64 that we regard this divergence as a failing in our internal controls, as we have been unable to explain as yet how the differences arise. Given the differences between the two methodologies, it is possible that both are partially correct as they measure evasion from different perspectives. However, DfT and DVLA have commissioned a review of the different statistical assumptions that underpin the two sets of measurements to assess the robustness of our models.

We have already learned a great deal from the in-depth investigations we have undertaken on the exceptions flagged by the survey. It is clear that there are some changes of behaviour in play, but also that the statistical model is very sensitive to specific parameters. We anticipate that the independent review will report towards the end of July 2007, after audit clearance.

Evasion % in Traffic and Estimated Revenue Loss by Main Tax Class





There are two key messages emerging from the analysis of evasion by tax class, if viewed alongside the analyses of the estimated revenue loss by tax class:

- the relative proportion of motorcycles evading VED is much greater than any other category of vehicles
- the PLG evasion rate is relatively low, but the unit VED charge and the high number of vehicles in this tax class mean that the bulk of lost VED financially is due to PLG evasion.

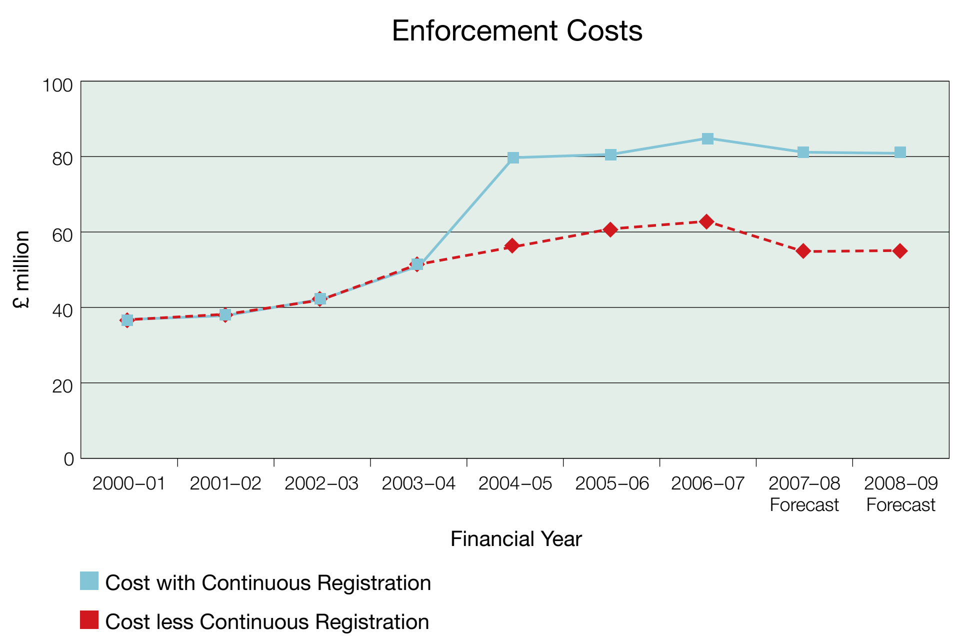
From a purely economic perspective, DVLA should focus its efforts on the financial levers available for PLG vehicles. However, the levels of motorcycle evasion (although reduced from earlier levels reported in 1999), are significant enough to potentially create the view that DVLA is allowing a specific sector to flout the law and this could present problems for wider compliance levels. During 2006–07 we have undertaken a number of trials of tagging systems and plan a number of specific initiatives aimed at motorcycle compliance during 2007–08.

VED Enforcement Activities and Costs

DVLA handles its enforcement activities as complementary streams, with each set of activities focused on different segments and working together for overall effect. The mix of activities is agreed annually through the VED Governance Board comprising HM Treasury, DfT and DVLA, with monthly monitoring figures on activity and costs provided and quarterly meetings. The activities comprise:

- advertising
- Continuous Registration enforcement from the record
- ANPR cameras operated by DVLA
- prosecution of named reports of unlicensed sightings (primarily generated by police)
- “hot line” call handling from the public
- wheelclamping.

The total costs of these activities over the years are shown below:



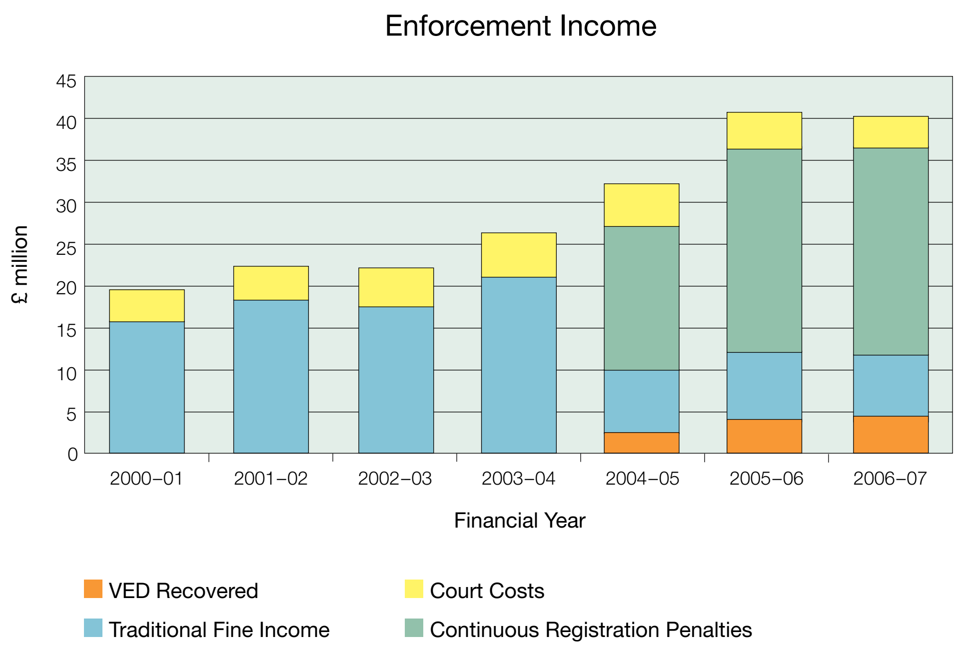
The results of these activities are both direct and indirect:

Direct – VED is recovered from vehicle keepers for periods of evasion, fines are collected and court costs recovered.

Indirect – VED evading vehicle keepers are returned to compliance with future revenue impact, enforcement campaigns (e.g. ANPR) shown statistically to have a local deterrent effect leading to "compliance surges" (this can be calculated as "induced relicensing").

Finally there is the overall deterrent effect of wheelclamping, which is aimed specifically at persistent offenders. Without this stream of activity the other enforcement activities would lose much of their impact and effectiveness. This is the most costly activity, per unit of interaction, and frequently results in vehicle crushing rather than direct financial recovery and in so far as vehicle related crime is clearly associated with persistent evaders there is ancillary benefit in removing the vehicles from the road.

Quantified Enforcement Recoveries (excluding induced relicensing and deterrence impact)



DVLA, as advised by the VED Governance Board, continues to balance the different enforcement streams and monitor results to move to the most effective mix. However, some of the individual impacts remain difficult to quantify and the activities interact significantly, as indicated above, so we continue to work with the full range of enforcement options.

2006–07 has seen DVLA address the issue of recovery rates for court judgements and penalty letters issued. We undertook a very successful pilot with the employment of debt collectors and these have been shown to reduce our costs of collection and improve recovery rates. We are now in discussion with HM Treasury to extend their usage, agree a financial regime to make this effective and procure extended longer term contracts.

Planning, Risk Management and Corporate Assurance

The Statement on Internal Control (SIC) (pages 60–64) provides a summary of the way in which DVLA manages its Governance and Internal Control. This section focuses on the way our management and controls work together. DVLA has developed significantly in this respect in terms of the way in which it has integrated the:

- evolution, agreement, statement and presentation of its strategy through the published Strategic Agenda 2007–2012, looking forward 5 years and incorporating a complete set of Target End States (TES) for the Agency, Routemaps for their achievement and an internal Programme Structure representing portfolios of projects.
- development of business planning, driven by a composition of Secretary of State Targets and Measures of the Timeliness of Service Delivery to Customers, the first year steps of the TES Routemaps, ministerial policy imperatives and detailed operational planning.
- operational planning and management implemented through a process of Integrated Resource Management (IRM) an adaptation of private sector 24 month monthly planning cycles predicated on detailed productivity data/measurement, volume forecasts and activity change analysis (that underpin our headcount management).
- reporting of progress against current and future targets (profiled) through Balanced Scorecard mechanisms now fully linked with the IRM processes, Risk Management reporting and detailed monthly Management Statements, presenting key operational data/key performance indicators and financial information.
- Financial and Resource management through implementation of integrated SAP ERP processes and software, which feeds into the IRM processes and a monthly process of operational and project budgetary re-forecasting to ensure maximum use is made of resources as income and expenditure forecasts move monthly.
- establishment of a Risk Management Office to bring together the bottom-up Risk Liaison Officer network, the individual programme/project risk processes and the top-down corporate risk management of the Executive Board (including business continuity).
- establishment of a CIO role, responsible for information management policy and data assurance.
- establishment of Programme Management Office to manage inter-programme dependencies, risks, resource conflicts and overall management reporting – now consolidated into a COPPE centre of excellence backed up by Business Design Authority (BDA) to ensure alignment and delivery monitoring between strategy and programmes, Technical Design Authority (TDA) to ensure alignment between information management policy, technical strategies and individual project proposals of Organisation Design Authority (ODA) to ensure the development of the Agency staff organisational structure are aligned with the plan.
- DVO (SSDL) governance framework, ensuring that reporting and escalation procedures are well covered and DVLA issues become considered by DfT whenever appropriate.

Assurance over the robustness of these functions and developments lies with Internal Audit (IA) for corporate and operational processes and controls, Programme and Project Assurance (PPA) for DVLA life cycle and controls assurance for programmes/projects and Better Quality Services plus for VfM and continued relevance to Agency objectives. These three areas now work together in a more integrated way as the Corporate Assurance Services group.

Strategy, Business Planning, Risk Management and Information Management have also been consolidated to form a more integrated Corporate Management Services group, pulling the strands much closer together and ensuring reporting meets the full business needs.

Key Impacts for the future

The DVLA Strategic Agenda 2007–2012 and Business Plan 2007–08, both available on the DVLA web-site, provide a detailed analysis of the Agency's view of the future. Wherever possible, it has included the response and financial impacts of these changes into the forecasts included in this Management Commentary but also more practically into DVLA future costings and public consultations on levels of fees and charges for its statutory services.

Key changes anticipated in the next two to three years include:

- completion of delivery of Agency Gershon targets by March 2008
- delivery of Continuous Insurance Enforcement along the same lines as Continuous Registration
- delivery of systems and processes to support Ten Year Renewal of photocard licences and Certificate of Professional Competence (jointly with DSA)
- delivery of remaining elements of Driver systems renewal – further e-enabled transactions, decommissioning of old mainframe systems, roll-out of data enquiry access to Police, Courts and other enforcement agencies, support for Third Directive changes and progress with smartcard proof of concept
- recall of paper licences
- introduction of chip on to driving licences
- continuing channel shift for Vehicles (EVL) and Drivers (DRP) from paper to electronic transactions
- full stabilisation of the new systems infrastructure and replatforming of the Vehicles systems
- transition of Northern Ireland vehicle systems and processes onto DVLA systems
- completion of accommodation development, with rationalisation of estate as a result
- implementation of new Job Families, role descriptions, grading structures and pay/reward systems to support Professional Skills in Government – enabling personal ownership of development and closer alignment of reward to performance.

This set of initiatives will be progressed through a number of individual projects grouped into Programmes to handle the high levels of interdependencies between the projects. These developments will impact significantly on the future financial requirements, management and operational results of the Agency. Delivery has significant dependencies on the outsourcing contracts we have with IBM as our PACT partner and LST as our estates PFI contractor to provide the required resources and flexibility to ensure we deliver robustly and to the ambitious timescales we have set.

3 Remuneration Report

DVLA Remuneration Report

Remuneration policy

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

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

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

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

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

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

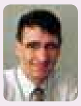
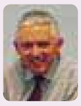
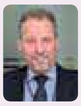
Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Chief Executive and Directors.

Mr Jeremy Forshew, an associate partner for IBM Business Consultancy Services was appointed to the Executive Board on the 26th July 2006. Mr Forshew's membership is in order for plans and strategies to be shared with our PACT partner. Mr Forshew is therefore not remunerated by DVLA.

Remuneration of the Chief Executive and the Directors

		2006–07 Salary including performance £000	2005–06 Salary including performance £000
	**Mr Clive Bennett** Chief Executive	135–140	130–135
	**Mrs Avril Beynon** Human Resource and Estates Director	65–70	65–70
	**Mrs Sharon Baker** PACT Services Director	70–75	70–75
	**Mr Ieuan Griffiths** Finance and Strategy Director	90–95	85–90
	**Mr David Hancock** Local Operations Director	70–75	70–75
	**Mr David Evans** Central Operations Director	70–75	15–20
	**Mr Noel Shanahan** Business Development Director	85–90	75–80
	**Mr Richard Kitchen** External and Corporate Services Director	70–75	15–20
	**Ms Kate O’Connor** Shared Services Director	70–75	15–20
	**Mr Simon Rew** Organisational Change Director (to 26th July 2006)	N/A	N/A
	**Mr Jeremy Forshew** Transformation Director (from 26th July 2006)	N/A	N/A

Remuneration of the Chief Executive was:

	2006–07 £000	2005–06 £000
Salary	114	113
Bonus Payments	21	21
Pension contributions	45	33
	180	**167**

These tables are subject to audit.

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; private off allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the Department and thus recorded in these accounts.

Pension Benefits

	Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 at 31/03/07 and related lump sum £000	CETV at 31/03/06 £000	CETV at 31/03/07 £000	Employee contributions and transfers in £	Real increase in CETV as funded by employer £000
Mr Clive Bennett Chief Executive	0–2.5 plus 2.5–5 lump sum	5–10 plus 25–30 lump sum	178	218	1,315	30
Mrs Avril Beynon Human Resource and Estates Director	0–2.5 plus 2.5–5 lump sum	30–35 plus 95–100 lump sum	697	752	1,125	23
Mrs Sharon Baker PACT Services Director	-2.5–0 plus -2.5–0 lump sum	15–20 plus 55–60 lump sum	381	385	1,048	-9
Mr Ieuan Griffiths Finance and Strategy Director	0–2.5 plus -2.5–0 lump sum	20–25 plus 30–35 lump sum	319	356	12,964	14
Mr David Hancock Local Operations Director	0–2.5 plus 2.5–5 lump sum	5–10 plus 15–20 lump sum	100	127	1,090	21
Mr David Evans Central Operations Director	0–2.5 plus 5–7.5 lump sum	15–20 plus 50–55 lump sum	214	245	1,125	28
Mr Noel Shanahan Business Development Director	0–2.5 plus 0–2.5 lump sum	0–5 plus 0–5 lump sum	24	42	2,727	14
Mr Richard Kitchen External and Corporate Services Director	0–2.5 plus 2.5–5 lump sum	35–40 plus 100–105 lump sum	695	755	1,125	33
Ms Kate O'Connor Shared Services Director	0–2.5 plus 0–2.5 lump sum	0–5 plus 0–5 lump sum	5	32	8,375	19
Mr Simon Rew Organisational Change Director (to 26th July 2006)	N/A	N/A	N/A	N/A	N/A	N/A
Mr Jeremy Forshew Transformation Director (from 26th July 2006)	N/A	N/A	N/A	N/A	N/A	N/A

This table is subject to audit.

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 make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Cash equivalent transfer values

Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Clive Bennett
Chief Executive and Accounting Officer
6 July 2007

4 Accounts for 2006–07

Statement on Internal Control 2006–07

Scope of Responsibilities

As Accounting Officer for DVLA, I have responsibility for maintaining a sound system of internal control that supports the achievement of the DVLA's 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 Government Accounting. As Accounting Officer of a Trading Fund, I am directly appointed by HM Treasury, though ultimately responsible to the Secretary of State for Transport.

The DVLA is an executive agency of the DfT, and is one of four agencies that provide direct Driver, Vehicle and Operators (DVO) services to the public. The four agencies have been sponsored through the DVO Group (a Directorate of the DfT), now amalgamated into the DfT's Safety, Service, Delivery and Logistics (SSDL) Directorate. This Directorate provides, through the four Agencies, co-ordinated strategies for the registration, testing and assessment of vehicles, drivers and operators across the United Kingdom.

The SSDL Directorate 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 DVO Board, which is chaired by a non-executive appointee and comprises the four Agency Chief Executives, together with SSDL and non-executive members.

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

Driver licensing in Northern Ireland is a devolved power and is undertaken by a separate executive agency, Driver and Vehicle Agency in Northern Ireland (DVA), within 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 on DfT's behalf in Northern Ireland by DVA, acting through Service Level Agreements managed by DVLA.

The purpose of the system of internal control

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 the DVLA and DfT's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Agency for the year ended 31 March 2007 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.

Capacity to handle risk

I have appointed an Executive Board (EB) that I chair, to assist with the management of the Agency. It comprises the Directors of the Agency functions as well as an IBM Director from the Agency's strategic partnership. The EB meets formally bi-monthly as an Executive Planning Board (EPB) to consider plans and the strategic direction of the Agency, including oversight of the Agency's transformation 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. The EB also meets formally each month as an Executive Review Board (ERB) to review the Agency's performance, including the identification and management actions to address the key operational and immediate risks facing the Agency.

I receive further support in identifying and managing wider business and financial risks from the Agency's three Non–Executive Directors, who bring ideas and advice from their different experience to bear on Agency issues. The Non-Executive Directors have exerted their influence through periodic attendance at the EB, membership of the Agency Advisory Board now consolidated with EPB from November 2006 and the DVLA Audit Committee, on which two of them sit. The DG and SSDL Strategy and Resources Director have helped to ensure that sufficient priority was afforded to risks impacting the overall DfT and DVO objectives through the attendence at the EPB.

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, based on partnership and risk sharing principles, provides the Agency with a unique opportunity to use technology and innovation to deliver enhanced and expanded services to the public. IBM, Fujitsu and Agency staff work together as integrated PACT teams. A Senior Director from IBM is a full member of the EB, although he has no ability to commit resources on behalf of DVLA and is excluded from discussions on the commercial or financial aspects of the PACT contract itself.

Change risks are identified and 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. EB members are appointed as Programme Directors (with full SRO responsibilities) and are held individually responsible for delivery. COPPE has been accredited by an Office of Government Commerce (OGC) approved assessor, and meets the requirements as laid down by OGC for a Centre of Excellence. Established during 2005–06, the function has continued its development during 2006–07 and actively enforces life cycle standards and controls, reporting monthly to the EPB meetings on progress within programmes, cross-dependencies and risks.

Financial expenditure (both IT and non-IT) that are programme or project based, rather than within line management operational budgets, are assessed and approved by the Agency's Finance Committee, which makes recommendations to the EPB. Following approval, the COPPE monitors and tracks programmes through to closure providing EPB 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.

The Agency has embedded risk management into its business operations successfully, including a network of Risk Liaison Officers (RLOs) and ability for individual staff members to highlight risks directly on the DVLA Intranet.

There is a framework in place that sets out the Agency's strategic approach to risk management as well as providing guidance to staff. This, together with other guidance and a summary of the latest corporate risk register, is available on the Intranet for staff comment, contribution and information. The risk management policies and processes are supported and maintained by the Risk Management Office (RMO). The Head of RMO is responsible for advising on corporate risk management and the escalation of risks from the risk and control framework to the EB.

The Head of RMO introduced further improvements during 2006–07 including processes to ensure that the "bottom-up" and "top-down" risk assessments integrate properly and are currently refining and making explicit the Agency's definition of its risk appetite. RMO staff and EB members meet monthly to discuss their own 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 periodically; with the main risks relating to the ability of the Agency's IT infrastructure to accommodate the new release demands; and the need to ensure that the development and implementation of the new Shared Services Centre did not impact adversely on either the provision of customer services or the Agency control framework.

The risk and control framework

Risk Management and internal audit are integral to DVLA's overall governance activities, with systematic reviews of risks undertaken at all levels of decision-making, business and change management. The Agency maintains comprehensive risk registers at each level in the organisation, including:

- **Programme and Project –** Risks are 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 OGC guidelines on the "Management of Risk". All projects and programmes have regularly reviewed risk registers.
- **Operational Activities –** Risks are identified through a regular stewardship exercise controlled and monitored by the RMO, raised through a RLO or directly by staff.
- **Corporate –** The corporate risk register is at the top of the DVLA risk hierarchy and contains escalated risks from the programme registers, RLOs and Stewardship exercises. In addition, individual EB members can place risks directly onto the register.
- **DfT and DVO/SSDL group risks –** Risks having an impact across the DVO/SSDL Directorate, or potentially the wider DfT, are escalated to the relevant risk register.

I have established a number of initiatives to manage these risks and ensure that the Agency can continue to deliver high quality services to its customers and stakeholders whilst implementing its challenging change agenda. These include the introduction of a flatter organisational structure and the adoption of job families to better support the development and career progression of our staff.

The programme of reviews based on Better Quality Services (BQS) principles has continued throughout the year; testing a range of Agency's activities to confirm that they are still needed, provide value for money to customers and that they are being delivered in a cost effective manner.

The systems of management control established include the Finance Committee, which has delegated expenditure responsibilities and provides advice on operational budgets to ERB and Programme investment affordability to EPB. The budgetary controls are underpinned 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 ERB for action and forward decisions. The IRM process is also fundamental as part of our efficiency and VfM planning and monitoring, especially in respect of headcount. Our Gershon Review monitoring and reporting are based on these mainstream control functions and not on separate or stand-alone processes.

During the year, it has become clear that we have an unexplained weakness in our monitoring controls over the effectiveness of our VED collection. Our internal management information on VED evasion, based on DVLA Automatic Number Plate Reader camera data, numbers of Continuous Registration case letters and financial collections have indicated that the VED collection has been rising, whilst the results of the annual roadside survey in June 2006 and its attendant statistical extrapolations indicate rather that evasion rates have risen. DfT and DVLA have commissioned a review by independent statisticians to explore the underlying assumptions in both sets of models to resolve the apparent anomaly. NAO is maintaining a watching brief and is engaged with the review and investigations underway. In last year's Section 2 Report, the NAO advised that construction of new targets should be undertaken for VED Revenue Collection and evasion on the road, to replace what have previously been overlapping targets. The results of the investigations now in progress will be fed into proposals for new targets to be agreed with DfT and HM Treasury.

Review of Effectiveness

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

- 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;
- comments made by External Audit in their Management Letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the EB and Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place. The Agency has in place a range of internal control processes that have been applied in maintaining and reviewing the effectiveness of the system of internal control. These processes apply to all Agency activities and transactions. They are applicable to both the Agency business accounts and to the VED Account, an account in which the collection of Vehicle Excise Duty is detailed.

Audit Committee

The DVLA Audit Committee [AC] assists me by advising me, the EB and 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 two of the Agency's Non-Executive Directors, an additional Non-Executive member and one Executive Director. I and the Director of Finance and Strategy attend Audit Committee meetings as observers.

Internal Audit

DVLA Internal Audit operates to prescribe 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 that it remains focused on the key risks to the Agency.

IA works to common standards and processes relating to audit planning and reporting with other Internal Audit units in the DfT group. The Agency's HIA has free access to DVLA AC 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. IA has in place a programme of activity designed to obtain assurance that significant users of DVLA data who are external to the Agency are using this information in an appropriate manner.

The IA function was itself the subject of an independent review of standards and effectiveness as part of an overall DfT review during 2006–07 and I draw assurance from those results, though a number of actions for improvement and standardisation across DfT are now in implementation.

Programme of Project Assurance

Programmes and Projects are assured independently by the Agency's PPA teams. PPA staff are seconded from the COPPE pool of skilled resources to provide assurance to Programme Directors and the EPB that Programmes and Projects are being delivered to the highest standards and in accordance with Agency standards and best practice.

BQS Review Team

The cycle of efficiency reviews and benchmarking contributes to my assurance of VfM delivery as a part of the Agency's ongoing operational delivery. The teams are accredited by the Institute of Management Consultants as working to best practice standards and methodologies.

During 2006–07, we re-organised our review teams, bringing together IAS, PPA and the BQS teams into a single structure within Corporate Assurance Services, working increasingly to common standards and disciplines. They retain their functional specialisms, drawing on other parts of the Agency where necessary, but the reporting to Audit Committee increasingly works on an integrated model to provide me with the overall assurance through review that I need.

DVA Control Assurance and Vehicles Responsibilities

DVA is subject to internal audit review by the DOE. I draw assurance from the opinion the DOE 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 EPB. These are also subject to the assurance oversight by PPA. Work is currently underway to integrate DVA and DVLA vehicle systems to achieve greater efficiency in the way vehicle services are delivered.

All significant projects, in both DVLA and DVA are subjected to the prescribed risk assessment process and scoring and then 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 and low risk projects are peer reviewed by internal reviewers through a similar process.

Clive Bennett
Chief Executive and Accounting Officer
6 July 2007

Statement of the Agency's and Chief Executive's Responsibilities

Business 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 the DVLA is concerned with compliance the VED Account does not estimate the duty foregone as a result 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 and
- 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 the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting. 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.

VED Accounts

Under 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, and disclose and explain any material departures in the financial statements 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 the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

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 2007 under the Government Trading Funds Act 1973.

These comprise the Profit and Loss Account, the Balance Sheet, the Cashflow 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 being audited.

Respective responsibilities of the Driver and Vehicle Licensing Agency, Chief Executive/ Accounting Officer 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, certain information given in the Annual Report, which comprises Directors' Report, Management Commentary and Remuneration 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 compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement coves 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. 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 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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

Audit Opinion

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 the Agency's affairs as at 31 March 2007 and of its surplus 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 there under; and
- information given within the Annual Report, which comprises Directors' Report, Management Commentary and Remuneration Report, is consistent with the financial statements.

Audit 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.

I have no observations to make on these financial statements. I report separately on pages 99 to 109 on the VED Account.

John Bourn
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SWIW 9SP
10 July 2007

Business Accounts for the year ended 31 March 2007

Income and Expenditure Account for the year ended 31 March 2007

	Note	**2007 £000**	**2007 £000**	2006 £000	2006 £000
Income from operations					
Income from activities	2	**396,709**		380,926	
Other operating income	2	**216,624**		204,856	
Total income from operations			**613,333**		585,782
Expenditure					
Operating costs	4	**(310,202)**		(295,798)	
Staff costs	3 & 11	**(161,846)**		(160,179)	
Depreciation, Amortisation and Impairment	6 & 7	**(15,903)**		(15,077)	
Total operating expenditure			**(487,951)**		(471,054)
Operating surplus	2		**125,382**		114,728
(Loss)/Profit on disposal of fixed assets			**(1)**		30
Surplus payable to Consolidated Fund	2		**(115,574)**		(110,168)
Interest receivable and similar income			**3,870**		4,671
Interest payable on loan from Secretary of State			**(304)**		(789)
Dividend payable	5		**(3,620)**		(3,288)
Surplus for the financial year			**9,753**		5,184
Retained surplus brought forward	14		52,454		47,270
Retained surplus carried forward	14		**62,207**		52,454

All income and expenditure are derived from continuing operations.

Notes forming part of these accounts appear on pages 72 to 88.

Statement of Total Recognised Gains and Losses

		2007	2006
		£000	£000
Surplus for the financial year	2	**9,753**	5,184
Unrealised surplus on revaluation of tangible fixed assets	7	**823**	128
Movement in Government Grant Reserves	14	**(4,306)**	(3,680)
Total recognised gains and (losses) relating to the year		**6,270**	1,632

Notes forming part of these accounts appear on pages 72 to 88.

Balance Sheet as at 31 March 2007

	Note	**31.03 2007 £000**	**31.03 2007 £000**	31.03 2006 £000	31.03 2006 £000
Fixed Assets					
Intangible assets	6	**78,668**		61,503	
Tangible assets	7	**43,505**		32,826	
			122,173		94,329
Currents assets					
Debtors	8	**56,256**		55,454	
Cash at bank and in hand	9	**42,493**		35,824	
		98,749		91,278	
Creditors amounts falling due within one year	10	**(58,342)**		(44,838)	
Net current assets			**40,407**		46,440
Provisions for liabilities and charges	11		**(24,004)**		(25,875)
Net assets			**138,576**		114,894
Financed by:					
Capital reserves					
Retained Surplus	14	**62,207**		52,454	
Public Dividend Capital	14	**19,048**		19,048	
Loan from the Secretary of State	14	**0**		8,455	
Government Grant Reserve	14	**52,680**		31,120	
Revaluation Reserve	14	**4,641**		3,817	
			138,576		114,894

Notes forming part of the accounts appear on pages 72 to 88.

Clive Bennett
Chief Executive and Accounting Officer
6 July 2007

Cash Flow Statement for the 12 months ended 31 March 2007

	Note	31.03 2007 £000	31.03 2006 £000
Operating Activities			
Net cash inflow from operating activities	13	**132,106**	153,576
Returns on Investments and Servicing of Finance			
Dividend paid		**0**	(6,466)
Interest paid		**(304)**	(789)
Interest received		**3,870**	4,671
Net cash inflow/(outflow) from returns on investments and servicing of finance		**3,566**	(2,584)
Capital Expenditure and Financial Investment			
Payments to acquire intangible assets		**(24,533)**	(10,316)
Payments to acquire tangible assets		**(12,598)**	(3,702)
Receipts from sale of fixed assets		**0**	36
Net cash outflow from capital expenditure and financial investment		**(37,131)**	(13,982)
Net Cash Inflow Before Financing		**98,541**	137,010
Financing			
Shared Service Centre – Government Grant		**30,864**	0
Principal paid on loan from Secretary of State		**(8,455)**	(8,454)
Surplus paid to Consolidated Fund		**(114,281)**	(113,110)
Net cash outflow after financing		**(91,872)**	(121,564)
Increase in cash in the year	12	**6,669**	15,446

Notes forming part of these accounts appear on pages 72 to 88.

Notes to the Accounts

Note 1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006–07 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 (excluding computer equipment), 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.

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 drivers and vehicles 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, judgement and belief. 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 Financial Reporting Manual. Land and buildings are revalued every five years on an existing use valuation by appointed Chartered Surveyors. In the intervening five years a desktop or index linked revaluation is performed. Office equipment, motor vehicles and fixtures and fittings are revalued in accordance with price indices published by the Office of National Statistics (MM17 – Price Index Numbers for Current Cost Accounting). The Agency does not revalue computer equipment due to the short useful economic life. In the opinion of the Agency there is no material difference between the net book value and market value of computer equipment assets.

Surpluses and deficits arising on revaluation are taken to the Revaluation Reserve where appropriate. Permanent diminutions in the value of fixed assets are charged to the Income and Expenditure Account. 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 group 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	10 years

Fixtures and fittings relates to the specialised fit-out of the Richard Ley Development Centre, Shared Service Centre and the Contact Centre.

The estimated remaining useful lives of land and buildings at 31 March 2007 are:

Agency premises	30 years
Temporary buildings	10 years

The estimated useful lives of assets are reviewed regularly and, when necessary, revised. Freehold land 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 two months 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 covered by volume related Service Level Agreements (SLAs), managed by DfT on behalf of HMT 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 bearing transactions are not subject to VAT.

Shared Service Centre

The Department for Transport's Shared Service Centre (SSC) based in Swansea has been set up following a high profile audit of operations that recommended a number of measures to cut costs and increase productivity. This is part of the Department's drive to improve efficiency, and in response to the Gershon Efficiency Review.

The centre will provide human resources, finance and payroll services to the whole of the Department for Transport, which is made up of the following eight government agencies:

- DVLA – Driver and Vehicle Licensing Agency
- DSA – Driving Standards Agency
- HA – Highways Agency
- DfT(c) – Department for Transport Centre
- VCA – Vehicle Certification Agency
- VOSA – Vehicle and Operator Service Agency
- MCA – Maritime and Coastguard Agency
- GCDA – Government Car and Despatch Agency

The Shared Service Director sits on the DVLA Board and is a member of the SSC Customer Board. The Customer Board is responsible for agreeing the parameters and policies within which the SSC must operate. The Customer Board is made up of representatives from DfT(c) and each of the agencies, along with the SSC Director and a representative of the wider shared services initiatives in government.

The capital cost of setting up the SSC is £29.1 million (£3 million in 2005–06 and £26.1 million in 2006–07). DfT have funded this cost through Government Grants to DVLA.

In accordance with 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 (£16.1 million 2006–07) incurred as part of the setup and development of the Shared Service Centre.

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. 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 remains 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 Land Securities Trillium, to provide the following property outsourcing solutions:

- Cleaning
- Building Maintenance
- Catering and Vending
- Office Moves
- Furniture Repair
- Furniture Replacement
- Grounds Maintenance
- Waste Management
- 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, LST are carrying out a refurbishment of the Morriston site. Where the work is capital in nature (air conditioning, double-glazing, lifts, specialist cabling) the costs are capitalised and 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.

Motor Vehicle Licence Savings Stamps (MVLSS) Scheme

The Post Office® have previously operated a MVLSS scheme on behalf of the DVLA. This scheme allowed customers to purchase stamps from the Post Office®, which could be redeemed for a VED disc. The monies collected by the Post Office® were held on deposit for future redemption by customers. When the customer used the stamps to purchase a VED disc, the Post Office® arranged to transfer the funds to the Agency.

The Post Office® notified the Agency that they were introducing a similar stamp scheme but of wider scope, so the Agency took the decision to withdraw its more limited scheme to its customers from the 1st April 2005. Customers already holding DVLA stamps could still use them to purchase a VED disc from the Post Office® until 31st March 2006. After this date the holders of MVLSS could only use them at the Agency's Local Office network or post them to the DVLC for full refund.

In April 2005 the Post Office® transferred £38 million relating to the unredeemed stamps to the Agency. As at the 31 March 2007 the balance on this account was £5.0 million having met £0.8 million demand on the fund in 2006–07. The Agency has an obligation to refund these customers any monies due and there is no time limit for receiving a refund: since the stamps can be exchanged for face value and are not attributable to individuals, the Agency cannot identify the holders of these stamps.

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

Activity	2006–07 Income £000	2006–07 Costs £000	2006–07 Surplus/(Deficit) £000	2005–06 Income £000	2005–06 Costs £000	2005–06 Surplus/(Deficit) £000
Statutory Services – Fees (i)	293,229	242,131	51,098	287,027	244,093	42,934
Sale of Marks	87,427	13,143	74,284	83,986	12,192	71,794
VED Collection	131,255	131,255	0	123,889	123,889	0
Enforcement	85,369	85,369	0	80,967	80,967	0
Other SLAs (ii)	16,053	16,053	0	9,913	9,913	0
Sub Total	613,333	487,951	125,382	585,782	471,054	114,728
(Loss)/profit on disposal of fixed asset	0	1	(1)	0	(30)	30
Net interest and dividends	0	54	(54)	0	(594)	594
Surplus payable to Consolidated Fund	0	115,574	(115,574)	0	110,168	(110,168)
Total	613,333	603,580	9,753	585,782	580,598	5,184

(i) The surplus on Statutory Fees includes £41.1 million (£38.6 million 2005–06) on the Cherished Transfer/Retention fee activities.

(ii) Other SLAs are amounts received from DfT in reimbursement for expenditure incurred by DVLA in setting up the Shared Service Centre (see note 22).

Fine Income

DVLA collected £40 million in fine income in 2006–07 (£39.7 million 2005–06). £20.5 million (nil 2005–06) was surrendered directly to HM Treasury and does not form part of the Trading Fund income. £19.5 million (£39.7 million 2005–06) was netted off against invoices raised to DfT in relation to the Enforcement SLA and recognised as income (Appropriation-in-Aid) in DfT accounts.

Note 3. Staff Costs

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

	2007 £000	2006 £000
Salaries and wages – DVLA employees	**126,480**	116,869
Salaries and wages – Agency Contractors	**1,260**	279
Voluntary early retirement (See note 11)	**4,198**	16,000
Social security costs	**8,638**	7,946
Other pension costs	**21,270**	19,085
	161,846	160,179
Amounts recharged in respect of staff on secondment	**26**	0

The average monthly number of employees (full time equivalent) on the Agency payroll for the year ended 31 March 2007 was 6,487 split between:

	2007	2006
Management	**1,479**	1,589
Administrative and support	**4,740**	4,850
Professional and technical	**16**	20
Seasonal staff	**252**	95
Total	**6,487**	6,554

Note: These are average figures across the year, they include seasonal staff over the summer period and the headcount and trends are downwards to meet Gershon targets, so year end figures are significantly lower.

Note 4. Operating Costs

	2007 £000	2006 £000
Agents' Costs		
Major contracted out services (i)	**166,903**	163,659
Northern Ireland agency costs (ii)	**12,258**	12,071
PFI Estates unitary charge	**10,486**	9,776
Payments to medical practitioners	**7,968**	8,448
	197,615	193,954
Other Direct Costs		
Postal related expenses	**20,459**	19,255
Stationery and printing	**14,046**	14,972
Publicity and marketing costs	**9,727**	9,256
Maintenance	**9,704**	8,674
IT development support	**12,067**	13,743
Other IT expenditure	**7,058**	5,750
Rates	**6,681**	5,495
Rentals under operating leases	**4,558**	4,122
Travel, subsistence and hospitality	**4,371**	3,818
Telecommunication	**3,991**	4,007
Other items	**22,702**	15,112
Department for transport costs	**1,440**	1,251
Auditors' remuneration (iii)	**89**	69
Non Cash Costs		
Release of Government grant	**(4,306)**	(3,680)
Total Operating Costs	**310,202**	295,798

(i) Major contracted out services includes business transactions with Post Office®, IBM/Fujitsu and National Car Parks Ltd. These costs include an estimated £57.6 million in respect of development costs (2005–06 £54.2 million).

(ii) Note that a functional split of these costs is shown separately in detail in the DVA resource accounts which can be obtained from DVA Finance, County Hall, Castlerock Road, Coleraine BT51 3HS.

(iii) Auditors' remuneration is solely for the statutory audit. There is no non-audit work.

Note 5. Dividends and Return on Capital Employed

	2007 £000	2006 £000
3.5% Return on capital employed	**3,924**	4,077
Less:		
Interest payable	**(304)**	(789)
Dividend payable	**3,620**	3,288

The Agency's average rate of return on capital to March 2007 was 16.6% against the financial target of an average 3.5% as stated in Annex A on page 89 of the Annual Report. This dividend is limited to the annual average target of 3.5%

The average return on net assets over the period 1 April 2006 to 31 March 2007 was 7.6%.

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. The Agency also holds other licences with other suppliers for application software.

	Software licence £000
Cost or Valuation	
At 1 April 2006	99,289
Additions	28,006
At 31 March 2007	**127,295**
Amortisation	
At 1 April 2006	37,786
Provided during the year	9,136
Impairment	1,705
At 31 March 2007	**48,627**
Net Book Value	
At 31 March 2007	**78,668**
At 1 April 2006	61,503

Intangible additions of £28.0 million (2005–06 £7.6 million) is in respect of software under development which is due to be completed and brought into use in future years.

Note 7. Tangible assets

	Land and Buildings	PFI	Fixtures and Fittings	IT Equipment and Purchased Software	Plant and Machinery, Office Equipment and Motor Vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2006	14,968	602	7,146	46,679	19,041	88,436
Additions	451	2,006	0	7,039	2,318	11,814
Asset under construction	0	0	513	754	1,837	3,104
Revaluation	520	98	205	0	0	823
Disposals	0	0	0	(1,566)	(26)	(1,592)
At 31 March 2007	**15,939**	**2,706**	**7,864**	**52,906**	**23,170**	**102,585**
Depreciation						
At 1 April 2006	383	7	1,219	41,442	12,559	55,610
Provided during the year	419	80	658	2,233	1,672	5,062
Disposals	0	0	0	(1,566)	(26)	(1,592)
At 31 March 2007	**802**	**87**	**1,877**	**42,109**	**14,205**	**59,080**
Net Book Value						
At 31 March 2007	**15,137**	**2,619**	**5,987**	**10,797**	**8,965**	**43,505**
At 1 April 2006	14,585	595	5,927	5,237	6,482	32,826

Valuation of Assets

The Land and Buildings were revalued on the 31 March 2007 using indices issued by HM Treasury and prepared by the Valuation Office. Whilst there was no movement in the index for land between 2006 and 2007, Buildings (including Private Finance Initiative) and Fixtures and Fittings were revalued using the Treasury Building Index.

The net book value of land £4.3 million includes Freehold £3.6 million and Leasehold £0.7 million (Richard Ley Development Centre £0.2 million [125 year lease] and Fforestfach £0.5 million [999 year lease]). The net book value of buildings £10.8 million relates to DVLA property.

In the opinion of the Agency there is no material difference between the net book value and market value of computer equipment assets.

Note 8. Debtors

	31.03 2007 £000	31.03 2006 £000
Debtors: amounts falling due within one year		
Trade debtors	**2,231**	2,091
Other debtors	**120**	111
Public sector debtors	**17,295**	14,206
Prepayments and accrued income	**31,262**	33,619
PFI prepayments	**1,090**	994
	51,998	51,021
Debtors: amounts falling due after more than one year		
Prepayments and accrued income	**4,258**	4,433
Total debtors	**56,256**	55,454

Included within prepayments is £19.5 million (2005–06 £22.8 million) in respect of a payment to the Post Office® for services to be provided in 2007–08 plus £8.2 million (2005–06 £8.3 million) which relates to a service charge provided by IBM.

Note 9. Cash at bank and in hand

	31.03 2007 £000	31.03 2006 £000
Balance at start of year	**35,824**	20,378
Net cash inflow in year	**6,669**	15,446
Balance at end of year	**42,493**	35,824

HM Paymaster General provides a current account banking service.
The following balances are held at 31 March 2007

Balances at Paymaster General	**39,173**	32,687
Commercial banks and cash in hand	**3,320**	3,137
	42,493	35,824

The balance of £39.2 million (£32.7 million 2005–06) at Paymaster General includes £10.3 million (£9.0 million 2005–06) held on behalf of HM Treasury and £3.6 million (nil 2005–06) due to DfT, both paid over soon after the year end (see Note 10).

Note 10. Creditors

	31.03 2007 £000	31.03 2006 £000
Creditors: amounts falling due within one year		
Trade creditors	**7,594**	21,074
Accruals	**29,084**	12,807
Dividend Payable	**3,620**	0
Cash balance payable to the Consolidated Fund	**10,308**	9,015
	50,606	42,896
Capital creditors	**7,736**	1,942
Total Creditors	**58,342**	44,838

Note 11. Provisions for liabilities and charges

	Tax Officers Pensions and Compensation Payments (i) £000	Early Departure Costs (ii) £000	Voluntary Early Retirement Costs (iii) £000	Total £000
Provision at 1 April 2006	9,550	325	16,000	25,875
Increase in provisions	0	149	4,198	4,347
Provisions utilised	(1,271)	(209)	(4,738)	(6,218)
Provisions at 31 March 2007	**8,279**	**265**	**15,460**	**24,004**

(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 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 will take early retirement under the Voluntary Early Retirement Scheme (VER). Compensation is payable from the date of retirement until age 60.

Note 12. Analysis of changes in net funds

	At 1 April 2006 £000	Cash flow £000	**At 31 March 2007 £000**
Cash in hand at bank	35,824	6,669	**42,493**
Loans due within one year	(8,455)	8,455	**0**
Total	27,369	15,124	**42,493**

Note 13. Reconciliation of net operating expenditure to net cashflow from operating activities

	31.03 2007 £000	31.03 2006 £000
Operating surplus	**125,382**	114,728
Adjustment for items not involving the movements of funds		
Depreciation charge	**15,903**	15,077
Release of Government grant	**(4,306)**	(3,680)
Movement in working capital		
Increase in debtors	**(5,801)**	(831)
Increase in creditors	**2,799**	19,721
(Decrease)/Increase in provisions	**(1,871)**	8,561
Net cash inflow from operating activities	**132,106**	153,576

Note 14. Movements in Capital and Reserves

	Public Dividend Capital £000	**Loan from Secretary of State £000**	**Government Grant Reserve £000**	**Revaluation Reserve £000**	**Retained Surplus £000**	**Total £000**
At 1 April 2006	**19,048**	**8,455**	**31,120**	**3,817**	**52,454**	**114,894**
Movement in the year						
Revaluation of tangible fixed asset	0	0	0	824	0	824
Principal repaid	0	(8,455)	0	0	0	(8,455)
Released during year	0	0	(4,306)	0	0	(4,306)
Surplus for the year	0	0	0	0	9,753	9,753
Grant received	0	0	25,866	0	0	25,866
At 31 March 2007	**19,048**	**0**	**52,680**	**4,641**	**62,207**	**138,576**

As a Trading Fund that is increasing its capital investment to sustainable levels for the future, DVLA has and will continue to budget for modest revenue surpluses to generate cash to reinvest in its capital infrastructure, basically the key IT infrastructure that underpins its Driver and Vehicle registers.

Note 15. Capital Commitments

	31.03 2007 £000	31.03 2006 £000
Capital Commitments	**1,693**	2,979

This includes £1.2 million (2005–06 £2.4 million) in respect of capital commitments under the PFI agreement with Land Securities Trillium

Note 16. PFI Financial commitments

	31.03 2007 £000	31.03 2006 £000
PFI Financial commitments are:		
Expiry dates within one year	**0**	0
Expiry dates between one and five years	**0**	0
Expiry dates beyond five years	**12,771**	10,204
	12,771	10,204

Note 17. Operating leases

Commitments due on existing operating leases are:

	31.03 2007 £000	31.03 2006 £000
Land and Buildings		
Lease expiry dates within one year	**663**	223
Lease expiry dates between one and five years	**1,369**	1,568
Leases with expiry dates beyond five years	**3,990**	3,873
	6,022	5,664

	31.03 2007 £000	31.03 2006 £000
Other		
Lease expiry dates within one year	**106**	21
Lease expiry dates between one and five years	**162**	358
Leases with expiry dates beyond five years	**0**	0
	268	379

Note 18. Related Parties

DVLA is one of the Safety, Service Delivery and Logistics (SSDL) organisations sponsored by DfT.

DfT is regarded as a related party. During the year the Agency had various material transactions with DfT and with other entities for which DfT is the parent 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, Department for Transport and Post Office®.

Mr J Forshew, an associate partner for IBM Business Consultancy services, was appointed to the Executive Board on 26 July 2006 and as such could create a related party relationship between IBM and DVLA. However, during 2006–07 the board comprised no fewer than 9 members and as a result, at no time during the year did Mr Forshew have a significant influence over decisions taken by the Board. Accordingly, the value of transactions between DVLA and IBM Business Consultancy Services is not separately disclosed. Mr Forshew's membership of the Board is in order for plans and strategies to be shared with our PACT partner.

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 19. Losses and abandoned enforcement cases

	31.03 2007 Number of cases	**31.03 2007 £000**	31.03 2006 Number of cases	31.03 2006 £000
Losses written off in year	**10,186**	**192**	11,169	71

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

	31.03 2007 Number of cases	**31.03 2007 £000**	31.03 2006 Number of cases	31.03 2006 £000
Abandoned enforcement cases	**121,982**	**5,578**	155,373	6,713

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.

	31.03 2007 Number of cases	**31.03 2007 £000**	31.03 2006 Number of cases	31.03 2006 £000
Special Payments				
Ex-gratia payments	**1,541**	**142**	2,136	147

Note 20. 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 also 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 also 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. As a result, the DVLA records in its Income and Expenditure account the contributions due in the year. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office.

For 2006–07, normal employer contributions of £21,269,703 were payable to the PCSPS to date (2005–06 £19,085,006) at an average rate of 19.00% (2005–06 17.99%). 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. Employer contribution rates are reviewed every four years following a scheme valuation by the Government Actuary. 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 make contributions, 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 21. Financial Instruments

a) Financial rate risk profile of financial assets and financial liabilities

The fair values of the Agency's financial assets and liabilities as at 31 March 2007 are as follows:

	31.03 2007 £000	31.03 2006 £000
Financial assets:		
Cash at bank in hand	**42,493**	35,824

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

Financial liabilities:

As at 31 March 2007, there were no significant liabilities held by the DVLA other than short term creditors.

b) Interest rate risk

DVLA finances some of its operations through the loan from the Secretary of State. The interest rate is fixed at 4.8% for the loan term, and was repaid on 31 March 2007.

c) Foreign currency risk

Except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

d) Liquidity risk

The Agency is not exposed to a liquidity risk. The level of capital expenditure payments are managed to be met from available cash balances.

As permitted by FRS13, debtors and creditors which mature or become payable within twelve months from the balance sheet have been omitted from the currency profile.

Note 22. Shared Service Centre

	2007 £000	2006 £000
Analysis of revenue costs		
PACT contract costs	7,339	5,151
Other (including DVLA staff)	8,714	4,762
	16,053	9,913

	2007 £000	2006 £000
Analysis of fixed asset expenditure		
Intangible fixed assets		
Project development	20,451	1,293
SAP software licences	1,772	1,786
Tangible fixed assets		
Computer and telephone equipment	3,392	0
Office machinery	5	0
Fixtures and fittings	513	0
	26,133	3,079

Note 23. Intra-government balances

	31.03 2007 £000 Debtors	**31.03 2007 £000 Creditors**	31.03 2006 £000 Debtors	31.03 2006 £000 Creditors
Balances with:				
Central government bodies	**18,603**	**23,621**	13,463	9,864
Local authorities	**0**	**0**	122	0
Public corporations and other trading funds	**20,280**	**0**	26,635	0
Total Intra-government balances	**38,883**	**23,621**	40,220	9,864

Note 24. Contingent Liabilities

There were no contingent liabilities as at 31 March 2007.

Note 25. Post Balance Sheet Events

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 19 July 2007.

Annex A

Driver and Vehicle Licensing Agency Trading Fund

Treasury minute dated 22 April 2004

1. Section 4(1) of the Government Trading Funds Act 1973 provides that a trading fund established under that Act shall be under the control and management of the responsible Minister and in discharge of his function in relation to the fund it shall be his duty:

   (a) to manage the funded operations so that the revenue of the fund:

   (i) consists principally of receipts in respect of goods or services provided in the course of the funded operations, and

   (ii) is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and

   (b) to achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.

2. A trading fund for the Driver and Vehicle Licensing Agency was established on 1 April 2004 under the Driver and Vehicle Licensing Agency Trading Fund Order 2004 (SI 2004 No.1037).

3. The Secretary of State for Transport, being the responsible Minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by the Driver and Vehicle Licensing Agency Trading Fund for the 5-year period from 1 April 2004 to 31 March 2009 shall be to achieve a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities after the recognition of interest receivable, but before interest and dividends payable, expressed as a percentage of average capital employed. Capital employed shall equate to the capital and reserves, i.e. the Public Dividend Capital, long-term element of Exchequer loans, and reserves.

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

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

I certify that I have audited the Vehicle Excise Duty (VED) Account financial statements for the year ended 31 March 2007 under the 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 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 Accounting Officer'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 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. I report to you whether in my opinion, certain information given in the Annual Report, which comprises Directors' Report, Management Commentary and Remuneration Report, is consistent with the financial statements.

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 coves 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. 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 judgments 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

Audit Opinion

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 Agency's affairs as at 31 March 2007 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 given within the Annual Report, which comprises Directors' Report, Management Commentary and Remuneration Report, is consistent with the financial statements.

Audit 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 99 to 109.

The maintenance and integrity of the Driver and Vehicle Licensing Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditor does not involve consideration of these matters and accordingly the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

John Bourn

John Bourn
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria,
London SW1W 9SP

10 July 2007

VED Account for the year ended 31 March 2007

Statement of Revenue and Expenditure for the year ended 31 March 2007

	Notes	**2007 £ million**	2006 £ million
Revenue			
Vehicle Excise Duty raised	2	**4,984**	4,953
Total Revenue		**4,984**	4,953
Expenditure			
Payments to HM Revenue and Customs	3	**(1)**	0
Amounts written off	4	**(3)**	(3)
Total Expenditure		**(4)**	(3)
Net Revenue for the Consolidated Fund		**4,980**	4,950

Notes forming part of these accounts appear on pages 95 to 98.

Balance Sheet as at 31 March 2007

	Notes	**31.03.2007 £ million**	31.03.2006 £ million
Current Assets			
Debtors	5	**2**	2
Cash at bank, in hand and in transit	6	**18**	12
Total Current Assets		**20**	14
Current Liabilities			
Deferred income	7	**(2,325)**	(2,192)
Creditors	7	**(6)**	(4)
Total Current Liabilities		**(2,331)**	(2,196)
Total Net Liabilities		**(2,311)**	(2,182)
Represented by:			
Balance on Consolidated Fund Account as at 31 March 2007	9	**(2,311)**	(2,182)

Notes forming part of these accounts appear on pages 95 to 98.

Clive Bennett
Chief Executive & Accounting Officer
6 July 2007

Cash Flow Statement for the year ended 31 March 2007

	Notes	**31.03.2007 £ million**	31.03.2006 £ million
Net Cash Flow from Revenue Activities	A	**5,115**	5,012
Cash Paid to Consolidated Fund		**(5,109)**	(5,002)
Increase in Cash in this period	B	**6**	10

Notes to the Cash Flow Statement

A: Reconciliation of Net Cash Flow to movement in Net Funds

	31.03.2007 £ million	31.03.2006 £ million
Net revenue for the Consolidated Fund	**4,980**	4,950
Increase in Liabilities	**135**	62
Net Cash flow from Revenue Activities	**5,115**	5,012

B: Analysis of Changes in Net Funds

	31.03.2007 £ million	31.03.2006 £ million
Net Funds as at 1 April	**12**	2
Increase in Cash in this period	**6**	10
Net Funds as at 31 March	**18**	12

Notes forming part of these amounts appear on pages 95 to 98.

VED Account

Note 1. Statement of the accounting policies

1.1 Basis of Accounting

The Vehicle Excise Duty Account is produced in accordance with the accounting policies detailed below. Those relating to revenue were developed by the DVLA in consultation with HM Treasury and are based on the principles for financial reporting published by the Accounting Standards Board in the Statement of Principles. Other accounting policies comply with UK Generally Accepted Accounting Practice to the extent that it is meaningful and appropriate. The accounting policies have been applied consistently.

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 apportioned across each payment channel in note 2.

1.3.2 Business Accounts

The following transactions are accounted for in the Business Accounts (see pages 68 to 88) and are covered by its related accounting policies:

a. Fines and Penalties (some are paid to Lord Chancellors' Department)

b. Fixed Assets

c. Losses and abandoned enforcement cases

d. Cost of collection of VED

1.3.3 Bad and Doubtful Debts

In order to give a true and fair view of the revenue, 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 VED 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 52.

1.3.5 VED Exemption

The VED financial implications of exemption have been estimated for the Vehicle Excise Duty Account and are discussed more fully in note 8.

1.3.6 Related Party Disclosure

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

1.3.7 Deferred Income

Deferred income in respect of the Post Office, 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 Motor Manufacturers is based on an extrapolation from an annual sampling exercise. Management estimate that the level of error arising from these approximations to be de minimus. A proportion of the deferred income balance will be claimed as a refund of duty during 2007–08. The value of refunds for 2006–07 is set out in note 2.

Note 2. Analysis of gross Vehicle Excise Duty collected.

	2007 **£ million**	2006 £ million
Over the Counter		
Post Office	**3,982**	4,289
Local Offices	**402**	422
Sub Total	**4,384**	4,711
Electronically		
Electronic Vehicle Licensing	**452**	85
Motor Manufacturing	**289**	302
Fleet Operators	**94**	91
Telephone Relicensing	**1**	1
Sub Total	**836**	479
Amounts refunded	**(236)**	(237)
Total	**4,984**	4,953

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 48 to 49 for further details).

Note 3. Payments to HM Revenue and Customs

Shipbuilders' relief is a payment to HM Revenue and Customs under the Finance Act 1966 to provide assistance to the shipbuilding industry. It aims to relieve shipbuilders of VED and 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 for contracts signed on or before 12 January 2004 in respect of classes of vessel not explicitly covered by EC Regulation 1540/98. During 2006–07 DVLA made payments to HM Revenue and Customs of £974k (£280k 2005–06).

Note 4. Amounts Written Off

	2007 £ million	2006 £ million
Amounts written off	**3**	3
	3	3

Amounts written off include cases where the Agency is unable to trace the offender – £1,337k (£665k 2005–06); or the case was successfully prosecuted in court and the revenues were collected by the Home Office – £1,059k (£1,117k 2005–06); or the applicant returned the VED licence disc and this was voided (cancelled) – £575k (£604k 2005–06). A provision of 20% is made for doubtful dishonoured cheque cases – a movement of (£139k) in 2006–07 (£15k 2005–06). This is based on previous trends.

Note 5. Debtors

	31.03.2007 £ million	31.03.2006 £ million
Motor Trade Debtors and Other Debtors	**2**	2
	2	2

Motor trade debtors of £20k (£68k 2005–06) are included within the above total and relate to money owed by Automated First Registration & Licensing dealers. The other debtors include dishonoured cheque debtors of £1.8 million (£2.2 million 2005–06), which are shown net of a provision for doubtful debts, and other sundry debtors of £53k (£21k 2005–06). All debt will be due to the Consolidated Fund when realised.

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

	31.03.2007 £ million	31.03.2006 £ million
Cash at bank, in hand and in transit	**18**	12
	18	12

The cash at bank balances are held at PGO and commercial banks.

Note 7. Creditors

	31.03.2007 £ million	31.03.2006 £ million
Deferred Income	**2,325**	2,192
Motor Trade Creditors and Other Creditors	**6**	4
	2,331	2,196

Motor trade creditors are where customers hold prepayment accounts, or payments have been made but the service has not yet been provided. The motor trade creditors and other creditors include £6.3 million (£4.2 million 2005–06) for motor trade creditors and nil (£280k 2005–06) for other creditors.

Vehicle Excise Duty is paid in advance. The deferred income balance relates to income received in 2006–07 for VED which relates to 2007–08.

Note 8. Exemptions

Some vehicles that use our roads are exempt from Vehicle Excise Duty. These are categorised and shown below at summary level. An estimated value has been attributed to the average volumes of exempt vehicles held on the Vehicle Register during 2006–07.

Exempt Category	PLG £m	HGV £m	Others £m	**Total 2006–07 £m**	Total 2005–06 £m	Total 2004–05 £m
Vehicles exempt from holding a VED licence*	18	16	8	**42**	41	39
Vehicles issued with a nil value licence**	207	10	18	**235**	228	219
Former Special Concessionary Group***	4	9	60	**73**	70	69
Total	229	35	86	**350**	339	327

* These include ambulances, fire engines and crown vehicles.

** These include vehicles kept by disabled drivers and historic vehicles.

*** These include agricultural vehicles.

In addition it is estimated that some 5.7 million vehicles pass through the trade each year. The average number of vehicles registered as SORN during 2006–07 was 1.7 million (2.6 million 2005–06). Vehicles held in the trade and vehicles registered as SORN are not liable to VED.

Note 9. Balance on Consolidated Fund Account

	£ million 2007	£ million 2006
Balance as at 1 April 2006	**(2,182)**	(2,130)
Net revenue for the Consolidated Fund	**4,980**	4,950
Less amount paid to the Consolidated Fund	**(5,109)**	(5,002)
Balance on Consolidated Fund Account as at 31 March 2007	**(2,311)**	(2,182)

Report of the Comptroller and Auditor General on Vehicle Excise Duty 2006–07

Background and Opinion

1. Section 2 of the Exchequer and Audit Departments Act 1921 requires me to examine on behalf of the House of Commons the correctness of the sums brought to account in the Vehicle Excise Duty (VED) Account operated by the Driver and Vehicle Licensing Agency (the Agency). My audit certificate contains my opinion that the accounts give a true and fair view. The Act also requires me to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of VED, and that they are duly carried out. I am required to report the results of my examination to the House of Commons. My audit certificate and this report together satisfy these requirements.

2. No tax or duty collection system can ensure that all those who have a liability comply with their obligations and there is a balance to be struck between resources used on enforcement work and the impact of that work.

3. In this report I draw attention to the outcome of the Department's 2006 roadside survey used to estimate levels of evasion. The conclusions drawn from the survey results show an increasing level of evasion with the estimated loss of duty of some 5 per cent (£217 million)[1], an increase from 3.6 per cent in the prior year and significantly higher than the Agency's targets of 2.9 per cent by 31 January 2007 and 2.5 per cent by 31 December 2007. Evasion by motorcyclists is estimated at some 37 per cent. The effectiveness of the Agency's controls is being impaired by non-compliance. The Agency has taken actions during 2006–07 which it expects to reduce future evasion levels as detailed in my report.

4. The VED Collection and Enforcement Governance Board, comprising representatives from the Agency, the Department for Transport and HM Treasury, monitors VED collection and enforcement under the Service Level Agreements between the Department and the Agency. The Board's responsibility is primarily for delivery and it is not accountable for VED policy, regulation or procedures. Collection and enforcement transaction volumes and costs are reported to the Board each quarter. Changes to the Service Level Agreements have to be agreed with the Treasury if the changes impact on the VED Collection Memorandum of Understanding between the Department and the Treasury.

Summary of Main Findings and Conclusions

5. **VED related regulations and procedures remain adequate and proportionate for the vast majority of compliant payers.** Electronic vehicle licensing over the internet has made it easier for many people to renew their licences.

6. **The Agency's 2006 roadside survey estimated VED evasion at some 5.0 per cent (£217 million), a significant increase from 3.6 per cent (£147 million) the previous year.** The Agency has little prospect of achieving its evasion target of 2.5 per cent by December 2007, or the related Gershon efficiency target to generate an additional £70 million annual revenue through reduction in evasion by 31 March 2008. Over a third of motorcycles (37 per cent) are estimated by the survey to be unlicensed, an increase from 30 per cent in the previous year. The higher and increasing evasion rates threaten public confidence in the Agency's enforcement regime.

7. **The Agency is exploring an alternative performance measure of the increase in VED income resulting from reduction in evasion, which potentially offers a better measure of the Gershon income target.** The new method of measurement will be based on actual VED income collected, working mainly from the Agency's records, rather than continuing to be based mainly on the results of the annual roadside survey. The Roadside survey will continue to be used as one of the measures to assess evasion.

[1] Source: "Transport Statistics Bulletin: Vehicle Excise Duty Evasion 2006" published by National Statistics and Department for Transport, January 2007

8. **The target of halving the vehicle underclass of evaders (unlicensed vehicles often associated with crime-related activities) is unlikely to be found to have been met by the January date, when the final review has been completed. No new Ministerial target has been set for 2007–08 as the Agency does not have sufficient scope to influence the vehicle underclass.** Discussions have started with the Home Office on how enforcement activity can be more effectively targeted at the vehicle underclass.

9. **My staff noted during their work that the VED systems allowed a small number of payers renewing their licences to avoid a month's duty without risk of penalty.** This situation occurred because, on expiry, the systems offer renewal for the period commencing on the first of the month in which the person applies, regardless of whether this coincides with the previous licence expiring.

10. **Over 60 per cent of unpaid Late Licensing Penalties were not pursued through the courts or through debt collection agents in 2006–07.** During 2006–07 the Agency trialled the use of debt collectors to pursue unpaid Late Licensing Penalties with encouraging initial success rates of 20 percent, broadly comparable with recovery rates for those pursued through the courts in 2006–07 and better than the court pursued recovery rates in the previous year. The Agency intends to place all unpursued cases through the debt collectors before the end of 2007. It also intends to include re-licensing actions as well as payment of penalties within the debt collection agents' remit. Hardened evaders who do not respond to debt collection actions will be targeted through wheel-clamping campaigns.

11. **There remain large numbers of hardened evaders who ignore the Agency's actions and who incur no further penalties after the first evasion episode,** even if they continue to evade for subsequent licensing periods.

Recommendations

12. The Department should continue to generate estimates of on-road evasion. In reviewing the future of the roadside survey, the Department and the Agency should consider alternative sources of evasion estimates such as automatic number plate recognition systems, even if they are only partial and closely targeted. Estimates of evasion need to provide enough data to inform decisions about the options for action against VED evaders.

13. The Agency should evaluate the impact and effectiveness of advertising as a method of reducing evasion rates and modify its communication methods by using the most cost effective means of reminding drivers of their responsibilities. In particular the Agency should consider how motorcyclists can be better targeted.

14. Retaining a focus on tackling the vehicle underclass is important because of the association with crime and the Department and Agency should work with the Home Office to devise a suitable target and measures for reducing evasion in this group.

15. As agreed with my staff, the Agency should take to the VED Governance Board a cost-benefit analysis for modification of the vehicle registration system in 2007 to issue penalties to customers who miss paying a month's tax on late renewal, as well as targeting those who are two months or more late. The Agency should estimate the impact on revenue of licensing gaps to identify the extent of duty lost and to minimise future losses.

16. The Agency should continue to analyse regularly the proportions of Late Licensing Penalties pursued through the courts and via debt collection agents to confirm that these recovery methods remain the most effective overall, and to determine the deterrent impact and cost-effectiveness of any additional spending on recovery action.

17. The Agency should specifically consider and evaluate the financial and enforcement benefits of the possibility of further penalties and warnings for persistent evaders in the run up to the next renewal date.

18. Following the outcome of a full year of debt collection activity in 2007–08, covering all cases, the Agency should consider the case for further penalties on persistent evaders. This would require legislative extension of regulations and powers.

Scope of this Report

19. This report focuses on the following:

- **Performance against targets**
  - Target to reduce evasion
  - Motorcyclist evasion rates
  - Target to reduce the number of persistent evaders
  - Efficiency target
  - Target to improve the accuracy of the vehicle database
- **Measuring and estimating evasion**
- **Enforcement**
  - Licensing gaps
  - Statutory off road notifications
  - Use of county court and debt collection agencies
  - Reminders and penalties for persistent evaders
  - False plates

Performance against targets

20. The Agency's key targets in relation to the collection and enforcement of VED were to:

- Reduce VED evasion loss to 2.9 per cent by 31 January 2007 and to 2.5 per cent by December 2007[2];
- Reduce by 50 per cent the number of persistent evaders of VED from the June 2002 figure by 31 January 2007[2];
- Generate an additional £70 million annual revenue through reduction in evasion of VED, by 31 March 2008 (Gershon efficiency target)[3]; and
- Maintain 97.5 per cent of current vehicle keepers as the level to be successfully traced from the record (and to remain at 97.5 per cent to June 2008).

21. The Secretary of State announced to Parliament on 28 March 2007 new targets for the Agency for 2007–08[4]. These do not include a new target to reduce by 50 per cent the number of persistent evaders.

22. The Agency conducts a roadside survey of over one million passing vehicles annually in June to identify unlicensed vehicles. Statistical weightings are then applied to the observed evasion rate in traffic (measured at 2.0% in June 2005 and 2.2% in June 2006) to calculate the estimated evasion in overall stock of vehicles, and then the estimated VED revenue loss (estimated at 3.6% for 2005–06 and 5.0% for 2006–07). The results are used to report performance against the first three targets set out above, whilst recognising that the dates of the surveys in June do not coincide with the target dates in December, January and March. Better alignment of target and measurement dates was agreed for the next tranche of targets to be set, to improve the clarity of reported progress. This next tranche of targets, likely to cover the spending review period 2008–09 to 2010–11, was under discussion at the VED Governance Board at the time this report was finalised.

23. The roadside survey remains the only externally measured source of estimates of on-the-road licence duty evasion, although the Agency uses internal estimates based on Automatic Number Plate Recognition (ANPR) data and business activity figures for management purposes.

Target to reduce evasion

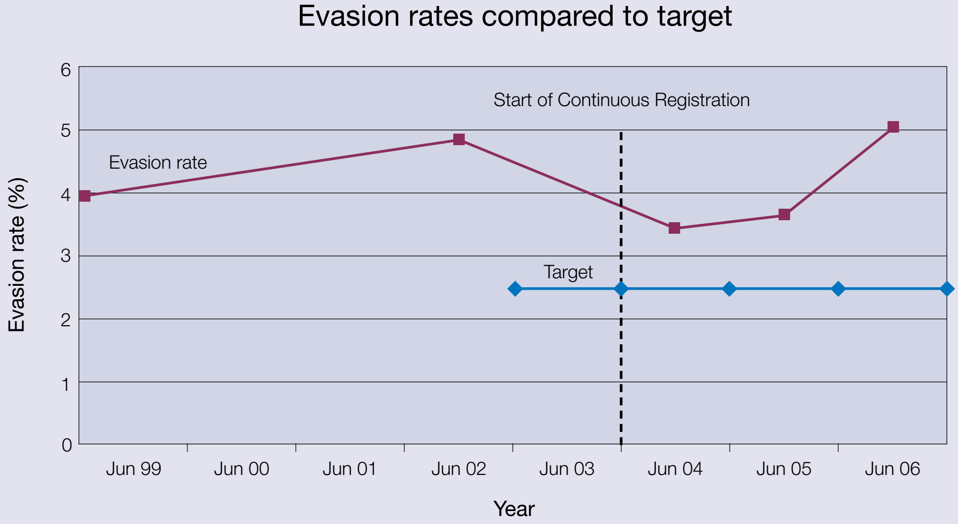
24. Based on the statistical calculations outlined above, the 2006 roadside survey estimated that the loss of VED due to evasion was some 5.0 per cent (£217 million) against the Agency's published targets of 2.9 per cent by 31 January 2007 and 2.5 per cent by December 2007. This was a significant increase over the 3.6 per cent evasion rate reported in the previous year. Figure 1 overleaf shows the evasion rates since 1999.

2. Secretary of State targets as set out in the Agency's 2006–07 Business Plan: www.dvla.gov.uk/media/pdf/corp_docs/dvla_business_plan.pdf

3. Efficiency target as set out in the Department for Transport's Efficiency Technical Note: www.dft.gov.uk/about/how/psa/efficiencyprogrammetechnicalnote

4. Written statement to Parliament on 27 March 2007, Hansard columns 78WS to 82WS

Figure 1: Evasion rates



Source: Roadside survey 1999, 2002, 2004, 2005 and 2006

25. The reported 5 per cent evasion rate means that the Agency has little prospect of meeting its target to reduce evasion loss to 2.5 per cent by December 2007. Actions taken by the Agency during 2006–07, but too late to influence the 2006 survey results, included doubling wheel-clamping efforts, the introduction of debt collection agents and new publicity material. The Agency believes these actions will reduce future evasion levels.

26. In 2005–06 the Agency attributed the increase in evasion between the 2004 and 2005 roadside surveys in part to the absence of advertising in the run up to the 2005 survey due to the General Election. Advertising had been carried out before the 2004 survey. However, the 2006 survey results showed an increase in evasion despite the advertising that took place in the run-up to the 2006 survey. The impact of advertising may therefore be less than anticipated or was outweighed by other factors, such as those listed at paragraph 37. The Agency has revised its advertising in the light of experience but has yet to develop measures through which it can assess the effectiveness of advertising, which cost £5.4 million in 2006–07 (£4.1 million in 2005–06) and the impact on evasion rates.

Motorcycle evasion rates

27. The 2006 roadside survey confirmed that motorcyclists remain by far the most likely group to evade VED, with an evasion rate of 37 per cent in the vehicle stock, up from just under 30 per cent in 2005. Motorcyclists are also the least traceable of vehicle keepers. The Agency considers that the main reasons for evasion remain as in previous years:

- Insurance is costly and people therefore ride without insurance and VED;
- Motorcycles are easy to store off-road where enforcement action cannot be taken; and
- On road enforcement (i.e. pulling vehicles over rather than using photographic evidence) is particularly difficult with motorcyclists as they can easily evade physical detention by enforcement officers.

28. Historically, enforcement action has not been aimed specifically at motorcyclists. The Agency has, however, now deployed targeted measures including:

- Roll out of Automated Number Plate Recognition (ANPR) equipment capable of reading motorcycle rear number plates;
- Specific on-road checks supported by the police and wheel clamping teams (with offending vehicles being impounded at the road side or taken away);
- Enforcement and education activities at motorcycle rallies and shows; and
- Advertising aimed directly at motorcyclists.

29. In my previous report, in July 2006, I recommended that the Agency should review the effectiveness of the advertising and enforcement operations specifically targeted at motorcyclists. The further increases in already high evasion rates amongst motorcyclists undermine the public's confidence in the Agency's enforcement regime. The Agency recognises this and plans to review advertising and enforcement effectiveness in 2007–08.

Target to reduce the number of persistent evaders

30. The Agency's measures to tackle VED evasion contribute to government-wide measures to reduce vehicle related crime and crime more generally. Based on police statistics, about three-quarters of persistently untaxed vehicles are thought to be used by people involved in some other criminal activity. The extent and nature of the Agency's anti-evasion activities include coordinated work with partners and seek to serve each others' interests, rather than focus solely on VED collection. The Agency's targets included therefore a target to reduce by half by January 2007, the "vehicle underclass", a term which refers to vehicle users who persistently do not comply with motoring laws. The agreed definition is:

"Vehicles that are used on the road with one or more of the following characteristics:

- Untaxed for at least 3 months
- Between keepers for at least 3 months
- Keeper with an unallocated post code (as a rough indicator of vehicles registered to a false name or address)
- Vehicle Registration Mark that does not appear on the Agency record (an indicator of vehicles with false or tampered number plates)
- Vehicle Registration Mark registered to a different vehicle type or model (an indicator of vehicles with false or tampered number plates, or vehicles that have been 'imperfectly' falsified)
- Declared scrapped".

31. The vehicle underclass was estimated at 970,800 vehicles, or 3 per cent of the total vehicle population based on the 2002 roadside survey results and the Agency's vehicle record at June 2003[5]. The results of the 2006 roadside survey suggest the target of halving the vehicle underclass is unlikely to be achieved, as the Agency acknowledges. The Agency has a responsibility to take VED enforcement action against such people although it cannot influence the behaviour of this group acting on its own. Progress against the target has not been reported on publicly since its inception. A new underclass target was not included in the Agency's Ministerial targets for 2007–08, announced on 28 March 2007, as the Agency does not have sufficient scope to influence the vehicle underclass. The Agency and the Department have begun discussions with the Home Office to consider how enforcement action against this group of evaders can be most effectively delivered.

Efficiency target

32. The Gershon Programme Efficiency Target was specified in July 2004 in terms of collecting an additional £70 million annual revenue from the licensing of vehicles through reduction in road tax evasion (not deriving from increases to the rate of VED or the numbers of vehicles in stock, and not deriving from changes to the six/twelve month tax disc balance or the mix of graduated VED bands). This reduction is to be achieved by the end of March 2008. The Department's Efficiency Technical Note states that baseline evasion for calculating improvements was 4.8 per cent of vehicles on the road, shown in the annual roadside survey results from 2002 when evasion was £206 million. The Agency has little prospect of achieving its evasion target of 2.5 percent by December 2007, as measured by the 2007 roadside survey, or the related Gershon efficiency target to generate an additional £70 million annual revenue through reduction in evasion by 31 March 2008. However, the Agency remains optimistic that these targets may be achieved if measured by the following year's roadside survey as by then the Agency's recent measures will have operated for at least a full year.

[5] The estimate of the extent of the vehicle underclass is undertaken for the Agency by the University College London Jill Dando Institute of Crime Studies, as a key partner in this work. See that institute's publication "Estimating the size of the 'vehicle underclass'" March 2004. (www.jdi.ucl.ac.uk/publications/research_reports/vehicle_underclass_report.php)

Target to improve vehicle database accuracy

33. The Department and the Agency consider the vehicle database accuracy target to be key to improving performance overall, as was recognised also in my report on "Reducing Vehicle Crime" (HC183, 2004–05). The Agency's database accuracy survey in October 2005 showed 97.4 per cent traceability of vehicle keepers (92.4 per cent were immediately traceable) compared with 90 per cent in 2003. The Agency's latest accuracy survey commenced in the first half of 2007 but will not conclude until the end of 2007. Future increases in traceability will be restricted by failure of customers to notify the Agency of change of name or address and failure to notify the Agency when they buy, sell or scrap their vehicle.

Estimating and measuring evasion

34. The full results the 2006 roadside survey were published on the Department's web site three months late, in January 2007, as a result of data and processing problems. The survey results are part of National Statistics and subject to rigorous quality assurance. Before the results were published, the Agency and the Department undertook additional analysis of vehicle records, to address concerns about a significant increase in the number of inadequate matches between survey data and the Agency's records.

35. The Department and Agency recognised the need to understand fully the reasons behind the significant increase in evasion, especially as it ran counter to some of the Agency's own management information which showed that:
    - VED income had increased;
    - Data from local office ANPR cameras showed a decreasing trend in evasion in traffic; and
    - Results of relevant policing operations showed a lower evasion rate.

36. Detailed examination of the roadside survey analysis led the Department and the Agency to improve their understanding and quality reviews of the statistical methodology, business model assumptions and certain data extraction processes. The Department and the Agency commissioned in 2007 a review of the survey process, including an independent panel which is expected to report later in 2007. These actions are focused on improving future data quality. The Department and the Agency nevertheless accepted the published results while continuing to work to develop a full understanding of the apparent anomalies brought to light.

37. The Department and the Agency also agreed the need to develop a structured research programme to investigate further the possible impact on the 2006 survey results of the following issues:
    - VED licensing systems might not address sufficiently retrospective licence cover when a vehicle keeper re-licenses late (see section on licensing gaps);
    - Congestion charging and Automated Number Plate Recognition (ANPR) enforcement may influence behaviour – especially avoidance of congestion charging and other crime – leading to more unlicensed vehicles being seen in the survey;
    - Increase in evasion related to vehicles on the road when the keeper has previously declared them to be permanently off the road;
    - Increase in trade plate related sightings;
    - Increase in the number of misread data and the number of mismatches to the Agency's records; and
    - Emergence in 2006 of significant numbers of brand new vehicles shown as unlicensed despite the automated first registration processes which should ensure VED is paid on all new vehicles before delivery.

38. Several of these issues may reflect new behaviours by vehicle keepers and the Agency plans to continue work to establish whether this is the case, together with the extent of any impact on evasion rates, the periods over which these issues have had an effect, and the appropriate response.

39. The Agency and the Department recognise that other sources of information exist which may contribute to evasion estimates, although each also pose challenges. Police forces and other agencies increasingly use Automated Number Plate Recognition (ANPR) cameras to capture data on vehicle movements, and this data could offer useful information about the level of VED evasion. However, as ANPR use is usually targeted at particular risks, expert statistical interpretation of the results would be needed if such data were to be used to estimate the overall national evasion level. Nevertheless, ANPR data also has advantages – for example it is geographically pervasive, covers the whole period under review and scans far greater numbers of vehicles during the year than the roadside survey.

40. Using the Agency's continuous registration database as a basis for estimating the overall evasion level would necessarily omit unregistered vehicles and those incorrectly declared as being off the road, while actually on the road. As the Agency and the Department review the future of the roadside survey, they need to consider its utility and cost, and the alternative sources of estimates, even if they are only partial and closely targeted. Estimates of the overall evasion rate remain of most use if they inform consideration of the options for action against VED evaders.

41. As the level of VED receipts had increased in 2006–07, which ran contrary to the increase in evasion estimated from the roadside survey results, in early 2007 the VED Governance Board requested the Agency to explore an alternative methodology for measuring performance against the Gershon income target in 2007–08 based on actual VED income collected. This alternative methodology will also be subject to independent review and performance will be derived mainly from the Agency's records. The measure will assess growth in VED revenue rather than estimated changes in on-road evasion levels. This approach may necessitate a change in the detailed specification of the target, although not the total amount of additional revenue collected. The new measurement methodology had not been finalised at the time of this report, and will be evaluated by the NAO next year.

Enforcement

Licensing gaps

42. My staff identified that a small number of licence payers could and had avoided a month's VED without being subject to a penalty. On expiry of a licence, the Post Office® offers renewal for the period commencing on the first of the month in which a customer applies, regardless of whether this is a month or more after their previous licence ran out. The Agency issues Late Licensing Penalties (£80 each, with £40 discount for prompt payment) to those who have not renewed their vehicle licence two months after the end of the previous expiry date. However, customers who obtain a licence starting a month after their previous licence has expired (leaving a licensing gap of a month) are not issued with penalty notices and are not therefore subject to the Agency's current enforcement regime. This situation reflects the length of time it used to take for the Post Office® to notify licensing activity to the Agency under the old paper-based system.

43. The Agency's Electronic Vehicle Licensing (EVL) system enables customers to pay VED and obtain a vehicle licence over the internet, rather than having to go to the Post Office® or an Agency office. The EVL system was rolled out to be available to all vehicle keepers in January 2006, although it was March 2007 before all vehicles being relicensed were covered by the new system. In the first full financial year of impact, 2006–07, some £450 million (10 per cent) of VED revenue was collected through this electronic channel. EVL was designed to provide an electronic parallel to the Post Office® system and consequently the same licensing gaps may occur. The Agency has not estimated the VED revenue lost due to licensing gaps, or analysed its impact on evasion rates.

44. In the light of the NAO's observations, the Agency plans to take to the VED Governance Board a cost-benefit analysis for modification of the Continuous Registration system to issue Late Licensing Penalties to customers who miss one month's tax. The Agency also plans to change the wording of the Continuous Registration notice so as to highlight that these customers can re-licence immediately using the EVL system.

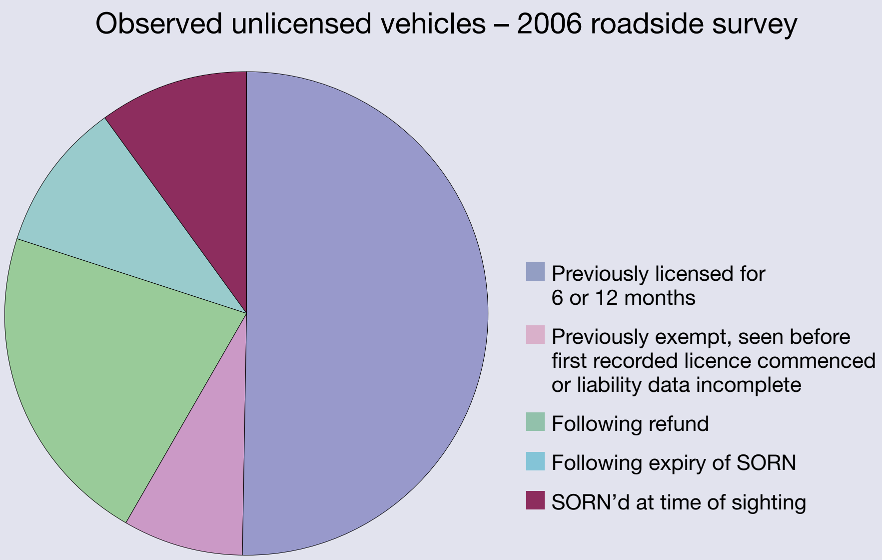
Statutory Off-Road Notification (SORN) related offences

45. Vehicles kept off the road are not subject to VED provided the Agency receives a Statutory Off-Road Notification (SORN). This notification must be renewed annually. It is an offence to drive a vehicle on the road while the vehicle is registered as off-road but offenders can only be detected if caught on the road. The offence is not enforceable from the Agency's vehicle database records alone, and hence potential VED evaders could regard being caught on the road in a vehicle which is subject to a SORN as a lesser risk than not being licensed at all, even though the fine, if caught, is much higher.

46. In June 2006 the NAO suggested that the Agency and the Department should analyse the roadside survey data to determine the incidence and growth of potential SORN-related offences as a guide to future action.

The Agency asked the Department for Transport statistics branch to analyse that sort of evasion following the June 2006 survey and also the equivalent data from the 2005 survey. Figure 2 below shows the breakdown of observed unlicensed vehicles for 2006. The analysis revealed that those continuing to drive on the roads vehicles registered as off-road had risen over the year from 9 per cent to 10 per cent. Identical results are shown for vehicles where the last off-road notification had expired without subsequent re-notification or relicensing. From 2007–08 the Agency's publicity material has emphasised that it is actively seeking such offenders, and sets out clearly the higher penalties imposed on them. Operational enforcement activities also reflect this position and the Agency aim to pursue vigorously those who are detected on the road whilst registered as off-road.

Figure 2: Analysis of unlicensed vehicles



Source: Department for Transport Statistics branch figures

Use of the County Court and Debt Collectors

47. Under the Continuous Registration scheme introduced in 2004, registered keepers who fail to re-license their vehicle or declare SORN within 2 months of expiry of the last licence, receive a Late Licensing Penalty. They can settle the offence on payment of a £80 penalty (reduced to £40 if payment is made within 28 days).

48. Non-payment of Late Licensing Penalties is enforceable through the civil courts, potentially leading to a County Court judgement against the vehicle keeper. In 2006–07 the Agency forwarded to the County Court 9,000 cases each month, an administrative limit agreed for the Agency. This was half the number of cases applied for in 2005–06 as a result of the decision to channel more cases towards debt collection agencies. In 2006–07 the Agency closed some 165,000 of the 491,000 of the Late Licensing Penalty cases not pursued, on compassionate grounds or where the Agency established that no offence had been committed.

49. In addition to pursuing debts through the courts, in 2006–07 the Agency trialled the use of three debt collection agents to recover outstanding Late Licensing Penalties from vehicle keepers residing in England, Wales and Scotland. For the purposes of the trial, the debt collection agents were not required to enforce compliance in respect of re-licensing or declaring vehicles off-road, to take cases to court, or to collect outstanding VED due.

50. The trial's success was measured mainly in terms of the amount of outstanding penalties recovered, issues raised and the number of complaints. The debt collection agents secured payment – either fully or by instalment plan – in over 20 per cent of the cases referred to them[6]. The Agency extended the trial for a period of 3 months while a tender exercise was carried out to procure debt collection agents for the long-term. The Agency took the opportunity to review ways in which debt collectors can encourage compliance regarding re-licensing, SORN and notification of changes in details as part of the new contract.

51. Figure 3 below shows the outcome of all Late Licensing Penalties issued during 2006–07 and compares this to the outcomes reported in 2005–06.

Figure 3: Outcome of Late Licensing Penalties

	2005–06		2006–07	
	Number of cases '000	Proportion of Notices issued	Number of cases '000	Proportion of Notices issued
Late Licensing Penalty Notices issued	1,279		1,272	
Late Licensing Penalty Notices paid (1)	465	36%	486	38%
UnPaid	814	64%	786	62%
Of which Not Pursued	619	48%	491	39%
Court Claims	216	16%	108	8%
Less Court Claims Paid (1)	(21)	(2%)	(29)	(2%)
Cases sent to debt collectors	N/A	N/A	274	22%
Less paid debt collection cases	N/A	N/A	(58)	(5%)

(1) Includes late penalties paid in 2006–07 but issued in previous financial years and has a cut-off date of May 2007.

[6] At the end of March 2007, 17 per cent of cases had been fully paid and 5 per cent of cases were paying in instalments.

52. Some 491,000 (over 60 percent) of unpaid 2006–07 Late Licensing Penalties were not pursued through the courts or through debt recovery agents. This figure remains unacceptably high, although it represents an improvement on the previous year mainly due to the debt collection trial. Figure 3 suggests that penalties pursued through the courts have a higher payment rate than those passed to debt collectors. This outcome may be due to timing differences, however. Penalties paid in 2006–07 following court intervention may have been issued in 2005–06, enhancing 2006–07 collection performance. By comparison, performance of debt collection agents will only reflect collection of penalties issued during 2006–07. The Agency should undertake analysis similar to that in Figure 3 on a regular basis. The analysis should inform its future collection strategies in terms of the proportion of Late Licensing Penalties pursued through the courts and via debt collection agents, and also on which collection methods remain the most effective. The analysis could be extended to consider the overall costs of the alternative channels (some £2.3 million on the Court cases and £900,000 on the debt collection trial), and the benefits which might be obtained from marginal or additional spending. That analysis would be of most value after the extension of the debt collection work for a full year.

53. Payment of the Late Licensing Penalty, whether directly or as a result of the Court or debt collectors, does not entail paying also for the vehicle licence. NAO examined a sample of 384 Late Licensing Penalty cases issued during 2005–06 and found that nine months into 2006–07 some 44 per cent were unlicensed and of those one third related to vehicles that had last been recorded as Off-Road. This evidence emphasised the importance of the Agency tackling firmly the evasion related to Off-Road registration.

Reminders and penalties for persistent evaders

54. As noted above, the Agency sends VED renewal reminders to vehicle keepers recorded on the vehicle database followed by late licensing penalties and in some cases, the Agency also takes Court or debt collection actions. The Agency does not send reminders or any other notification at what would have been the next renewal date to those being pursued for penalties or through other enforcement actions, or to those who do not re-license. Large numbers (491,000 or 62 per cent) of non-payers were subject to no action at all beyond the Late Licensing Penalty Notice in 2006–07. The Agency considers that it would not be cost-effective to send reminder letters to hardened evaders who have already ignored earlier letters, and there is no provision for second or subsequent penalties. The Agency also considers that its revised strategy to use debt collection agents to pursue all non-payers by the end of 2007 will now effectively act as further reminders. In their view therefore, offenders should recognise that debt and non-compliance will be pursued. The Agency also plans, from 2007–08, to pursue those hardened evaders who fail to respond to debt collection action through further wheel-clamping operations based on debt collection agency information. Debt collection may be further extended to include action on licensing as well as penalties.

55. As large numbers of persistent evaders remain – possibly up to half a million – the Agency should evaluate the benefits which might be achieved through extending the enforcement processes for subsequent renewal dates. The NAO recommends that following a full year of debt collection activity, covering all cases, the Agency and the VED Governance Board should also evaluate the results of the first full year of debt collection activity to inform their consideration of the case for further penalties for persistent evaders. This would require legislative extension of regulations and powers.

False Plates

56. Automated Number Plate Recognition (ANPR) cameras and software are used for many purposes, including congestion charging in London, at petrol stations to identify vehicles that have been driven off without paying, in car parks for security, and by the police and the Agency. The ANPR technology is generally accepted and widespread and in some cases is admissible in court as primary evidence of an offence. However, drivers' motivations for using non-traceable number plates are increasing, and are leading to growing problems with false number plates. Common problems are invalid, stolen and cloned numbers, foreign formats, illegal grouping of characters, illegal fonts and illegally modified reflective backing on number plates. All are designed to frustrate ANPR recognition and identification of the vehicle, and they impact upon the effectiveness of the enforcement activities of DVLA and other agencies.

57. The Agency consider that part of the problem could be addressed through stronger controls and restrictions on the volume of number plate suppliers and outlets, estimated at possibly 30,000 in Great Britain. Other suggestions for reducing the problem of false plates include tamperproof fixings and use of smart number plates which include chips similar to those found in credit cards. The Agency has considered the risks arising from invalid number plates, and their impact on enforcement and the roadside survey to estimate evasion. It monitors adherence to number plate regulations at number plate suppliers and works with the Police and Trading Standards to prosecute those suppliers who flout the law. The Agency has recently been granted powers to conduct its own prosecutions, which it plans to utilise in the near future. In addition, the Agency has developed and promoted a standard for theft-resistant number plates with the Police and Home Office.

The maintenance and integrity of the Driver and Vehicle Licensing Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditor does not involve consideration of these matters and accordingly the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

John Bourn

John Bourn
Comptroller & Auditor General
10 July 2007

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

Driver and Vehicle Licensing Agency

Vehicle Excise Duty Account for the year ended 31 March 2007

The Vehicle Excise Duty Account shall include:

- a Statement of the Accounting Officer's Responsibilities
- a Statement of Revenue and Expenditure
- a Balance Sheet
- a Cash Flow Statement and
- such notes as may be necessary to present a true and fair view.

The Notes shall include among other items:

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

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5623270 07/07
Printed on Paper containing 75% recycled fibre content minimum.

Published by TSO (The Stationery Office) and available from:

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www.tsoshop.co.uk

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Design and Print: Printing and Corporate Standards Group (PCSG), DVLA, Swansea

ISBN 978-0-10-295052-6

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