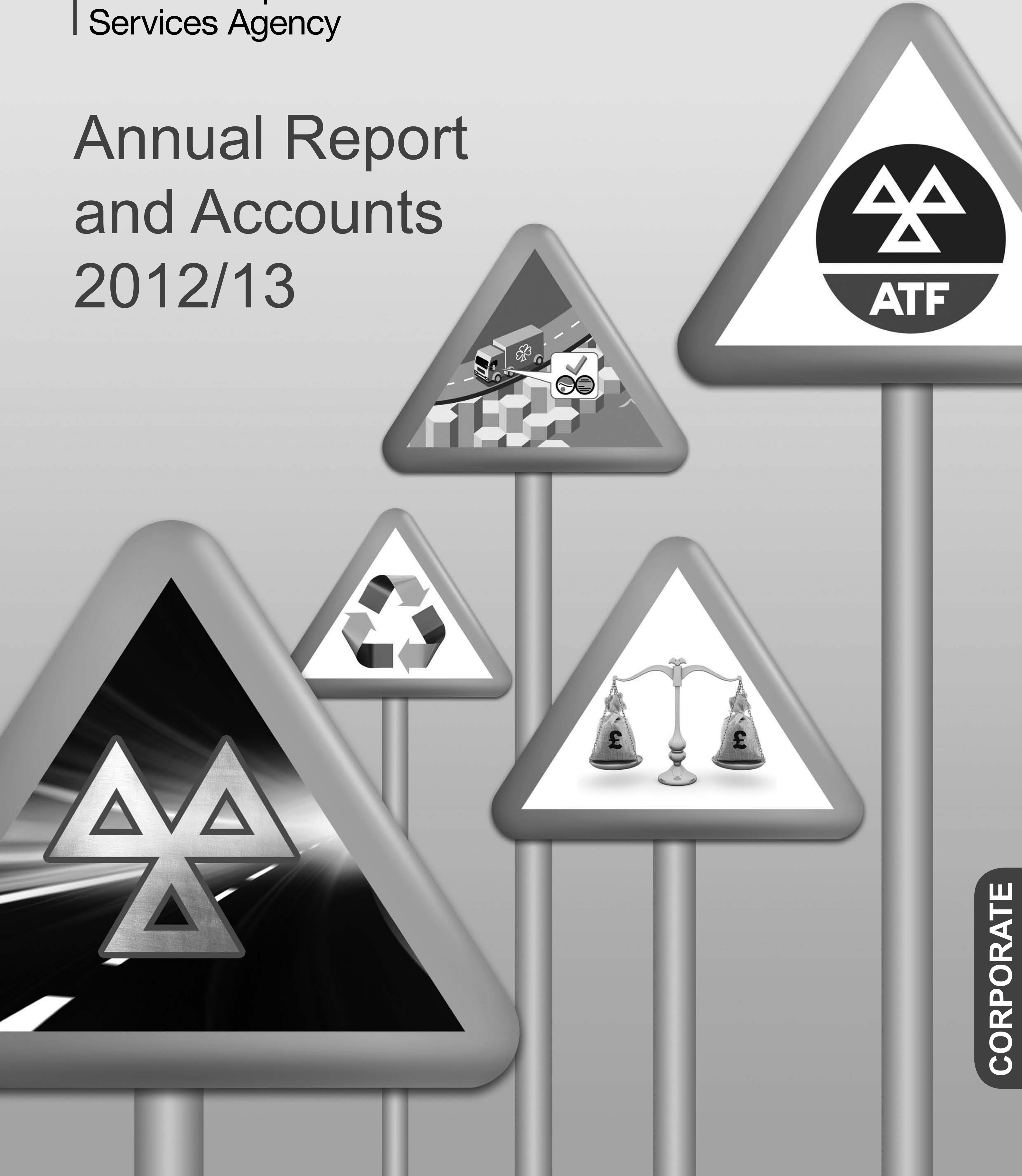
Vehicle & Operator Services Agency

Annual Report and Accounts 2012/13



CORPORATE

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

Vehicle and Operator Services Agency

Annual Report and Accounts 2012/13

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of the Government Trading Funds Act 1973

as amended by the Government Trading Act 1990

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Introduction

About VOSA

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

- *Conducting statutory annual testing for commercial vehicles and certain private vehicles;*
- *Conducting routine and targeted checks on vehicles, drivers and operators to ensure compliance with road safety legislation;*
- *Supervising the MOT scheme to ensure that around 22,000 garages authorised to carry out MOT tests are doing so to the correct standards;*
- *Providing administrative support to the Traffic Commissioners in considering and processing applications for licences to operate commercial vehicles and to allow them to carry out their independent regulatory function;*
- *Providing a range of educational and advisory activities at the roadside and at operators' premises to promote road safety; and*
- *Conducting post-collision investigations and monitoring products on the market for manufacturing or design defects, highlighting safety concerns and monitoring safety recalls.*

Our Strategic Direction

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

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

- *Testing & Inspection*
- *Licensing & Authorisation*
- *Enforcement*
- *MOT*
- *Education & Information*

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

- *Targeting those operators, drivers, MOT garages and speed limiter / tachograph centres most likely to be non-compliant*

- *Targeting areas of non-compliance most likely to cause accidents / incidents*
- *Ensuring we are effectively located*
- *Partnering more effectively with regulatory bodies and trade*
- *Adopting a graduated approach to sanctions*

During 2012/13 we have focused on developing a five year strategy into action plan. As we have progressed this work we have taken into account, where possible, external drivers for change including:

- *The Civil Service Reform Plan - including the Open Public Services agenda*
- *The Government Digital Strategy*
- *The Red Tape Challenge*
- *Industry expectations*
- *A Greener Government agenda*
- *EU Legislative change*
- *The economic environment which requires us to be leaner while delivering high quality services*

About this report

This Annual Report is the principal means for formally reporting to Ministers and Parliament on VOSA's performance and its statutory financial statements. It covers the period from 1 April 2012 until 31 March 2013.

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

Foreword

From our Chief Executive, Alastair Peoples

Over the past 12 months VOSA has met or exceeded 16 out of 17 key performance measures. In particular, a further 132 Authorised Testing Facilities (ATFs) were opened during the year bringing the total to 317 by March 2013. This has enabled many more operators to have tests carried out nearer to where they are based with around 137,000 more tests carried out at ATFs in 2012/13. In March 2013 55% of tests were carried out at ATFs and other privately owned sites compared with 36% a year before. As a result of the significant increase in operational ATFs, we have also been able to cease testing at a further 13 VOSA sites.

VOSA is keen to encourage further ATF take up and committed to volume growth in the existing ATF network. By introducing policy and legislative changes we will look to support this during 2013/14.

We held seven regional ATF forums where the ATF community were able to discuss various themes and inform future plans around, for example, the ATF contract and Next Generation Testing.

I am pleased to report that the first time pass rate for HGV trucks was at an all time high this year at almost 78%. The rate has improved by an average of almost three percentage points per annum over the last six years.

Much of what we do is in partnership with DfT and other Government bodies. In particular in 2012/13 we supported the provision of safe and legal Olympic transport – you can read more in the main body of this Report. We were also instrumental in progressing work towards a Lorry Road User Levy and we ensured that functionality was put in place to enable us to process ‘O’ licensing on behalf of the Driver and Vehicle Agency in Northern Ireland.

We also sat on the Garage Customer Experience Programme Board and one benefit to consumers already put in place is the introduction of better MOT mileage data to help to deter fraud.

We have made further improvements to our Operator Compliance Risk Scoring system which will improve its effectiveness and support a more level playing field. Our targeted enforcement activity continues to result in non-compliant operators being appropriately sanctioned. Working on an investigation in partnership with the UK Border Agency resulted in three defendants receiving custodial sentences totalling 38 years for importing heroin.

This year also saw the development of a compliance dashboard with significant input from the Commercial Vehicle Road Safety Compliance Forum. The dashboard will inform future road safety campaigns.

We received reaccreditation of the ISO 9001:2008 standard for vehicle defect investigation and safety recall work and our centralised licensing office and our customer service centre both received Customer Service Excellence reaccreditation.

2012/13 was the third year of our financial recovery plan. We achieved a surplus of £13.9m despite a continuing reduction in income, increased external costs and no general fee increases since 2009. Consequently, we have reduced our deficit of £47m in 2009/10 to £3.1m in 2012/13. We have seen good progress made with our VOSA Improvement Programme and look forward to building on foundations put in place during the year.

We continued to champion the Get Britain Working initiative on behalf of DfT and have hosted 152 placements in total.

So, another successful year which reflects the continuing commitment and efforts of our staff.

Performance Summary

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

Performance measures	Outcome	Detail
Testing transformation: ▪ Take the total number of open ATFs to in excess of 200 by March 2013 ▪ Develop and manage 16 targeted sales plans for selected Goods Vehicle Test Stations ▪ Cease testing at a further 10 VOSA sites	✓ ✓ ✓	317 16 13
The prohibition rate found at targeted checks of non-compliant HGV operators and drivers will be at least 12 percentage points higher than the rate found through random compliance checks	✓	17.9 percentage points higher
Determine 85% of goods and PSV applications unopposed and not requiring a public inquiry within 9 weeks of the date of receipt of the application and the required fee	✓	88.5%
Maintain Customer Service Excellence accreditation for Operator Licensing and the Customer Service Centre	✓	CSC Nov 2012 'O' Lic. Feb 2013
Maintain customer satisfaction at 90% through the development and delivery of a strategy by 31 March 2013	✓	Strategy agreed March 2013
Deliver our Business Plan within a staff complement of 2,332	✓	2,222 FTE
Reduce the average number of working days lost per full time equivalent (FTE) for sickness absence to 7.5 days	✗	8.3 days
Maintain customer take-up for operator self service transactions at 70% and Electronic First Time Pass Rate reports at an average of 60%	✓	OSS 81.1% FTPR 64.2%
Deliver financial performance in line with the Business Plan	✓	£13.9m surplus
Cut carbon emissions from agency buildings and business use of vehicles by 15% at 31 March 2013, compared to a 2009/10 baseline	✓	22.4%
Achieve payment of 80% of undisputed and settled invoices within 5 days	✓	88.0%
Complete 93% of Freedom of Information requests within 20 working days	✓	98.6%
Provide answers to 85% of Parliamentary Questions by due date	✓	100%
Respond to 85% of MPs' correspondence within 7 working days	✓	95.1%
Respond to 80% of official correspondence within 20 working days	✓	99.0%

Testing and Inspection

Performance Measures

Take the total number of open ATFs to in excess of 200 by March 2013

✓ Measure exceeded with 317 ATFs open by March 2013

Develop and manage 16 targeted sales plans for selected GVTSs

✓ Measure achieved – sales plans were created for all GVTSs with 16 prioritised for targeted sales plans

Cease testing at a further 10 VOSA sites

✓ Measure exceeded - we ceased testing at 13 sites

We continue to deliver our successful change programme to bring testing closer to the customer. During the year we opened a further 132 ATFs and carried out around 137,000 more tests at non-VOSA sites compared with 2011/12. In March 2013 55% of tests were carried out at privately owned sites. We focused on a range of initiatives to continue the momentum to enable the majority of statutory testing to be carried out at sites closer to the customer. In particular we:

- Targeted areas where ATF presence is lower;
- Encouraged existing ATFs to increase capacity to accommodate more vehicle testing;
- Reduced service provision at VOSA sites where there was evidence that ATF availability is increasing; and
- Ensured plans are in place to make further changes to fees in 2013/14 to reflect a fairer allocation of costs between tests carried out at VOSA sites and ATFs.

We supported the continued migration of testing to ATFs through prototyping a new operating model which includes functionality around staff scheduling, working hours and test result capture. Results were very promising and this prototyping work will inform the design of the new operating model.

In response to ATF interest, we hosted the first national ATF Forum in February 2012 where the ATF community shared their views and experiences two years after the launch of the ATF contract. In 2012/13 we held a further seven regional forums across the country. A range of topics were discussed at these forums including the overall progress with Testing Transformation and ATFs, as well as customer satisfaction, promoting ATFs and Next Generation Testing.

We continue to see an improvement in the proportion of trucks that pass the annual test first time with 77.6% in 2012/13 - over 2 percentage points higher than the previous year and the sixth consecutive year to see an improvement. There are a number of reasons for this trend including the advancements in vehicle technology, changes in requirements for certain elements of the test (such as headlamp aim), more stable vehicle conditions for those maintained and tested at ATFs and the impact of more targeted enforcement as the test result is reflected within the Operator Compliance Risk Score.

We played a significant role in contributing to the successful delivery of the Olympic Games. In particular, a number of individual 'novelty' vehicles were constructed by sponsors for the Olympic Torch Relay which all required individual type approval. We worked with the vehicle manufacturers to ensure that they were all safe and legal. Each relay vehicle was unique and hence required individual testing and checking of all vehicle parts.

To accommodate Olympic passenger transport needs, a significant number of PSVs were brought into service in the weeks immediately before the Games. We worked with the manufacturers to ensure they were all fit for service and certified ahead of the start of the Olympics. As these same vehicles then had to be converted for the Paralympic Games to allow provision of passenger transport for the large number of wheelchair users, we worked with the manufacturers to certify the converted vehicles in the two weeks before they were required to be 'In Service' again.

Other activities during 2012/13 included:

- Introducing a process to approve heavy goods carrying trailers before they are used on the road; and
- Working closely with DfT on a number of initiatives, including:
    - Providing detailed technical input into the consideration of draft EU regulations for future testing and roadworthiness;
    - Contributing to the review of the Vehicle Identity Check scheme – in particular, providing policy and finance input to inform draft consultation documents;
    - Identifying options for the type and scope of test that might be appropriate for certain tractors and trailers in the future; and
    - Providing expert advice on the draft framework directive for Motorcycle Approvals.

Enforcement

Performance Measure

The prohibition rate found at targeted checks of non-compliant HGV operators and drivers will be at least 12 percentage points higher than the rate found through random compliance checks

- ✓ We exceeded the baseline of 12% by almost 18 percentage points

VOSA's vision is one of full compliance within the industry that we regulate. Ultimately we aim to improve compliance by ensuring that non-compliance is no longer a cost effective option so that the general level of compliance will increase.

We continued to review our approach to roadside enforcement activity. In particular we:

- Made changes to our Operator Compliance Risk Scoring system to improve its effectiveness as an enforcement intervention tool; and
- Reviewed our process for stopping vehicles at the roadside to improve effectiveness and efficiency – including running workshops and LEAN (continuous improvement) events.

We supported DfT and other Government bodies in a number of policy areas including:

- Working towards a Lorry Road User Levy – including input to the consultation process and a review of enforcement detail in legislation;
- Providing input to the work on EU proposals for next generation tachographs, part of which aims to significantly reduce the potential for tampering through the use of magnets and other interference devices, and to improve diagnostic systems to assist enforcement detection;
- Introducing changes in line with 2010/47/EU regarding the technical roadside inspections; and
- Supporting DSA on Driver CPC through agreed enforcement strategies including an additional activity of reporting offenders to the Traffic Commissioner.

As part of our role to help ensure successful delivery of the Olympics:

- We adopted an educative approach for contracted PSV operators to ensure that they scheduled drivers and vehicles in a way that meets legal requirements particularly around Drivers' Hours rules;
- We worked with Transport for London (TfL) and the police to ensure that the M4 remained open by ensuring that the weight restriction on the Chiswick Flyover on the outskirts of London was robustly enforced; and
- In partnership with TfL and the police we also conducted a series of high profile checks of limousines with a significant and positive impact on compliance levels. For example, of over 150 checks, around 70% were issued with mechanical prohibitions and just under 50 drivers' hours offences were issued.

Licensing & Authorisation

Performance Measures

Determine 85% of goods and PSV applications unopposed and not requiring a public inquiry within 9 weeks of the date of receipt of the application and the required fee

- ✓ We exceeded the target, determining 88.5% of applications

The licensing and authorisation process aims to ensure that those subject to the various licensing regimes are fully compliant with relevant criteria on entry to the regime and remain fully compliant with those criteria throughout the life of the licence and, where not, are dealt with efficiently and effectively.

We ensured that systems and other capability are in place to enable the Driver and Vehicle Agency in Northern Ireland (DVA NI) to establish new administrative processes for operator licensing, including:

- Making changes to our Operator Licensing system (OLBS);
- Enabling DVA NI to have remote access to OLBS;
- Having a Service Level Agreement agreed and signed by November 2012; and
- Processing Operator licence applications for DVA NI at our Leeds office.

We ensured provision for the interconnection of the National Register to other member states in turn enabling the transfer of enforcement findings to these member states.

MOT

VOSA supervises the MOT scheme to ensure that around 22,000 garages authorised to carry out MOTs are doing so to the correct standards. We have approval, training and advisory roles and, where necessary, take disciplinary action to improve testing standards and raise levels of compliance.

We have played a significant role in supporting DfT in the implementation of a Garage Customer Experience Review. We were a key member of the Garage Customer Experience Programme Board and we continue to work closely with DfT in response to the findings of the review. During 2012/13 we:

- Made changes to the MOT system to enable the introduction of better mileage data on MOT certificates to provide consumers with a far more accurate picture of a vehicle’s history and to help to deter fraud;

- Published a policy statement on earned recognition for membership of the Office of Fair Trading[1] Consumer Codes Approval Scheme;
- Publicised the Codes to MOT garages through the January 2013 edition of Matter of Testing; and
- Included a selection of data from the MOT Compliance Survey within our published Effectiveness Report.

We have also:

- Agreed with DfT the development of a full business case for ICT MOT modernisation;
- Modified the MOT computerisation system to accommodate pre-1960 vehicle exemptions in line with EU regulations;
- Developed draft proposals for a centralised MOT garage application process; and
- Carried out 95 MOT seminars with 6,300 delegates, particularly focusing on future changes around EU proposals, disciplinary reviews and MOT modernisation.

[1] From 1 April 2013 this has become the responsibility of the Trading Standards Institute

Supporting Compliance through Education and Information

Performance Measures

Maintain Customer Service Excellence accreditation for Operator Licensing and the Customer Service Centre

- ✓ Customer Service Centre November 2012; Operator Licensing February 2013

Maintain customer take-up for operator self service transactions at 70% and Electronic First Time Pass Rate reports at an average of 60%

- ✓ Operator Self Service 81%
- ✓ Electronic First Time Pass Rate 64%

Maintain customer satisfaction at 90% through the development and delivery of a strategy by 31 March 2013

- ✓ Strategy paper agreed in March 2013

VOSA was awarded Customer Service Excellence re-accreditation in both our Customer Service Centre in Swansea and the Centralised Licensing Office in Leeds[2]. Not only did we meet the CSE standard, but we achieved an increase in the number of 'compliance plus' scores in both areas.

As part of the Government Digital Strategy we have worked closely with the Cabinet Office on the migration of our online content from DirectGov and BusinessLink to a new cross-government website www.Gov.uk which went live in October 2012.

We have been proactively working in partnership with the wider HGV/PSV industry to develop a 'compliance dashboard' through the involvement of the Commercial Vehicle Road Safety Compliance Forum. The dashboard will help to identify the main causes of non-compliance and inform joint industry and VOSA road safety campaigns.

As part of the work to support DSA on the Driver CPC scheme, we worked with our sister agency to produce a new information leaflet for drivers and operators. These leaflets are now distributed by our examiners.

We continue to provide a range of guidance and information through attending educational events around the country, including the Bus Expo event, the Commercial Vehicle Show, MOT seminars and Truckfests, and providing trade association support. These events provide informal channels for thousands of people - both within the industry and from harder to reach groups - to ask questions around legislation, enforcement issues and testing standards.

[2] These customer facing areas of the business were independently assessed against strict criteria where they had to show how they continued to deliver high quality customer service. To achieve the re-accreditation each area must demonstrate how it interacts with its customers and during each visit key stakeholders are interviewed by the assessor.

VOSA is committed to treating the English and Welsh languages equally when providing services to the public in Wales. We provide many bilingual documents and have Welsh speakers identified in our Customer Service Centre in Swansea for customers who wish to communicate with us in Welsh.

VOSA has an agreement with DVLA to carry out any written Welsh translations required. This service has been used on 25 occasions in 2012/13.

Delivering the Plan

Managing our Finances

Performance Measures

Deliver financial performance in line with Business Plan

- ✓ Surplus of £13.9m achieved in 2012/13

2012/13 was the third year of our financial recovery plan. The in-year surplus of £13.9m was the third consecutive surplus despite external cost increases, no general statutory fee increase since 2009 and lower testing and licensing-related income. We achieved surpluses of £11.3m in 2010/11 and £16.7m in 2011/12.

During 2012/13 we reduced costs in the following areas:

- Our rent was over £2m less mainly through office relocations and reduced office rent;
- Equipment maintenance costs were £675k less as equipment was taken out of commission in line with the reduction in heavy testing capabilities;
- Telecoms costs fell by around £350k through renegotiating contracts; and
- IT costs were £600k less mainly due to a reduction in the number of changes being made to legacy systems while we are in the process of developing an IT modernisation programme.

We engaged with DfT in preparation for the migration to a Shared Services Centre, including:

- Participating in the development of Target Operating Models for HR, Payroll, Finance and Procurement; and
- Engaging with the DfT competitive dialogue and playing a full part in the tender evaluation process.

In consultation with DfT, we agreed the development of a full business case for ICT modernisation designed to deliver a range of efficiency benefits.

Workforce Management

Performance Measures

Deliver our Business Plan within a staff complement of 2,332

- ✓ 2,222 FTE in post at March 2013

Reduce the average number of working days lost per FTE for sickness absence to 7.5 days

- ✗ 8.3 days at March 2013

Despite missing the sick absence measure, the average number of working days lost per FTE for sickness absence fell from 10.1 to 8.3 between 2010 and 2013. During 2012/13 we:

- Managed the transition to a new DfT policy on managing attendance, including staff communications and briefings;
- Reviewed our procedures for managing long term absence; and
- Worked with DfT Policy, Advice and Casework teams to seek ways to reduce absence levels.

We began implementation of elements of our VOSA Improvement Programme (VIP), including:

- Trialling a visual management approach at our Customer Service Centre;
- Carrying out Improvement events through a series of workshops focused on improving quality, productivity and the overall customer experience;
- Integrating and embedding VIP tools and processes; and
- Hosting management briefings to build staff awareness.

2012/13 saw the advancement of a number of Government-led initiatives that will contribute to staff development. These included:

- Adopting the Civil Service Performance Management Policy (implemented on 1st April 2013) incorporating VOSA-specific enhancements and support including:
    - Mandatory quarterly reviews;
    - An increased emphasis on reward and recognition;
    - A compilation of guidance and advice tools; and
    - Workshop briefings.
- Developing a talent management framework linked to wider Civil Service requirements;
- Leading the development of a DfT apprenticeship programme with initial work focused around scoping out an apprenticeship scheme involving stakeholders both internally (e.g. our operations teams) and externally (e.g. manufacturers and operators), and reviewing options for recruiting staff through this scheme; and
- Continuing in the role of DfT champion for the work placement scheme to provide opportunities for unemployed 18-25 year olds to get into work. VOSA hosted a further 49 in 2012/13.

Our staff engagement levels improved compared with 2011/12 with a 2% increase in the overall staff survey score.

Estate Management

Performance Measure

Cut carbon emissions from agency buildings and business use of vehicles by 15% at 31 March 2013, compared to a 2009/10 baseline

- ✓ Measure exceeded with a reduction of 22.4%

We delivered further financial and environmental savings through office relocations and a reduction in our overall estate. During 2012/13 we:

- Ceased testing at 13 test sites;
- Reduced our carbon footprint further across the office estate;
- Reviewed the use of part of our estate in order to vacate other buildings; and
- Made improvements to the way we manage our vehicle fleet – e.g. through the leasing of low emitting vehicles.

We joined the pan Government ‘closed loop’[3] recycling scheme as part of the Greening Government Commitment. Our Regional Intelligence Unit in Birmingham was the first Agency office to sign up to the scheme. More details of our achievements in reducing the carbon footprint can be found within the Sustainability Report on pages 24 to 27.

[3] Within this scheme all confidential and general paper waste is recycled and then bought back as 100% recycled paper. This paper is then part of the closed loop and so is recycled again, and so on.

Management Commentary*

The role of VOSA

As stated in the Introduction to this Report on page 4, VOSA is an Executive Agency for the Department for Transport (DfT). It is a trading fund, and was formed on 1 April 2003 by the merger of the Vehicle Inspectorate Trading Fund (VI) and the Traffic Area Network (TAN), a division of DfT.

We contribute to saving lives, making roads safer, cutting crime and protecting the environment through ensuring compliance with regulations of drivers, operators, vehicles, MOT garages and maintainers.

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

Financial Objectives

VOSA has the financial objectives of:

- managing the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to the revenue account; and
- to earn an average return on capital of 3.5% per annum over the period 1 April 2008 to 31 March 2013, as set out in the HM Treasury minute reproduced at Annex A to the Accounts.

Financial Review

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

Our long term financial strategy is to:

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

* The Annual Report meets HM Treasury requirements for disclosure of matters to be dealt with in the Directors' Report, the Management Commentary and the Remuneration Report and provides a high level overview of the main areas of VOSA's financial performance for the prior, current and future business planning year. Commentary on performance against VOSA Secretary of State Key Performance Measures and other Key Performance Indicators can be found on pages 8 to 17 of the Annual Report.

Financial Recovery

The financial recovery plan, started in 2010, is being delivered in two phases.

Phase 1 centred on the implementation of a tight cost control regime with the aim of generating annual surpluses to reduce the retained General Fund deficit whilst at the same time maintaining working capital and reducing debt.

Phase 2 centres on maintaining tight cost control alongside dealing with the impact on assets of our testing strategy to move the location of testing activities closer to the customer.

We are well on track.

2012/13 is the third year of the recovery and following on from previous successes in 2010/11 and 2011/12, represents another excellent step in achieving our aim of a sustainable and financially sound Trading Fund.

Within an extremely challenging wider economic context, which has contributed to falling demand for our services (statutory testing volumes have fallen from 1,097,941 to 977,659 (11%) over the last 3 years), we exceeded our Secretary of State key performance measure by realising a surplus of £13.9m, (2011/12 £16.7m) against a target of £7.0m. This performance was achieved despite a further downturn in income of £3.4m to £171.4m, coupled with no general fee increase.

Significant emphasis has been placed on the need to contain cost pressures whilst managing increases in costs beyond our control in areas such as business rates. Total operating costs fell by £2.5m in the year to £164.7m. Property rentals reduced as a result of relocating two Offices of the Traffic Commissioner (in Bristol and Cambridge), equipment maintenance costs also reduced as equipment was taken out of commission in line with the reduction in heavy testing capabilities and telecommunication costs reduced as a result of the renewal of contracts. There were increases in travel and subsistence costs as our testing staff supported the transfer of heavy testing to non VOSA locations, however these were offset by underspends from staffing vacancies.

The depreciation charge has, in recent years, shown a reducing trend. As we invest in upgrading our IT systems it is expected we will see a reversal of this trend and experience an increase in the depreciation charge in the near future. However, this will be offset by the delivery of projected savings resulting from the investment.

As a result of the in year surplus of £13.9m, the General Fund deficit reduced from £(17.0)m at 31 March 2012 (£(46.6)m at 1 April 2010) to £(3.1)m.

Despite income continuing to fall we currently plan to achieve a surplus of £4.0m in 2013/14. Achievement of this outturn will mean that we have delivered our aim of recovering the General Fund deficit in 4 years compared to the 5 years originally planned.

This is an exceptional performance given the economic climate coupled with no general fee increases for our services over the last three years.

Investment

The improvement in cash flow has enabled capital expenditure during the year, of £4.7m, to be funded from cash reserves rather than seeking further loan financing from DfT.

Loan Debt

The total value of our outstanding loans (long and short term) has reduced from £76.1m at 31 March 2012 to £62.2m (see note 18). As we continue the delivery of our testing strategy we will seek to dispose of properties or seek alternative use. Proceeds from any disposals will be used to accelerate the reduction of our loan debt.

Net Funds, being balances at the Government Banking Service less loans due, stand at £0.2m compared with £(24.5)m at 31 March 2012. The improvement of £24.7m in the last year and £65.8m since the lowest point of £(65.6)m in 2010/11, arises from the cash being generated from our operating activities in line with the financial recovery plan.

Return On Capital

The average Return On Capital (ROC) over the period 1 April 2012 to 31 March 2013 was 22.3%. The average ROC over the period 1 April 2008 to 31 March 2013 was 7.6%, exceeding our Secretary of State target of 3.5% for the period. The basis of this calculation is set out in note 5 to the Accounts.

The return on capital has historically been delivered to DfT through the payment of interest on loans where the total interest paid has exceeded the value represented by the target return of 3.5% of capital. This year, however, the total interest paid has fallen below the return needed to meet the target return on capital of 3.5%. As a result we are therefore paying a dividend of £0.4m to DfT this year, the first dividend since 2001/02.

Financial Management

There has been a marked improvement in the financial management culture across the organisation with an increased awareness being shown by budget holders and a greater ability to deal more effectively with legacy issues. This improvement has been evidenced through the CIPFA Value for Money benchmarking exercise that we have undertaken for a third consecutive year, and by the positive comments received from the Audit and Risk Committee and other stakeholders.

In delivering the financial recovery we continue to embed a culture of continuous improvement throughout the organisation and support the Efficiency and Reform Group/Cabinet Office initiative to move to more centralised pan-Government procurement.

Accounts direction

The Accounts on pages 49 to 84 have been prepared in accordance with the direction given by the Treasury in pursuance of Section 4(6)(a) of the Government Trading Funds Act 1973, and Annex C to Dear Accounting Officer letter [DAO (GEN) 04/12].

Auditors

The Accounts of VOSA are audited by the Comptroller and Auditor General and his Certificate and Report to the Houses of Parliament is presented in the Annual Accounts at page 46. The financial statements are audited in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

Audit fees charged in the Accounts amount to £80,000 (2011/12 £78,300) which includes the audit of the Trust Fund Statement in Annex B. There were no non-audit fees charged in 2012/13 or 2011/12.

Disclosure of audit information to VOSA's auditors

As far as the Accounting Officer is aware:

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

Market value of land and buildings

Land and buildings are re-valued over a five year period with approximately one fifth of the estate being valued each year by an independent valuer.

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

Policy and practice on the payment of liabilities

VOSA is committed to both the Confederation of British Industry Prompt Payment Code and the Department for Business Innovation and Skills Better Payment Practice. The policy is that all bills should be paid in accordance with contractual conditions. Where no conditions exist, payment will be made within 30 working days of the receipt of goods or services, or the presentation of a valid invoice, whichever is the later. We achieved payment in accordance with this policy in 99.73% of transactions for the year ended 31 March 2013 (2011/12 99.96%). The performance is measured in accordance with HM Treasury guidelines.

In addition to the 30 day target, we endeavour to pay suppliers, especially Small and Medium sized Enterprises, within 5 days. We achieved payment in accordance with this policy in 88.0% of transactions for the year (2011/12 86.0%).

Pension liability

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. VOSA is unable to identify its share of the underlying assets and liabilities. Provision is made within the Accounts to meet early retirement costs payable by VOSA up to the employee's normal retirement age.

Forward Look

As we move into 2013/14 we will be working closely with colleagues in arvato Ltd[4] to ensure a successful migration of our transactional support services to the Government's Independent Shared Services Centre 1 (ISSC1) for our HR and Payroll systems in January 2014 and Finance and Procurement in April 2014.

On 20 June 2013, the Minister issued a statement to the House outlining changes to the role of the Agency following the consultation on the Department's Motoring Services strategy that ran from 13 December 2012 to 7 March 2013 as part of our commitment to delivering better quality and better value services to the public and business. A new single agency will bring together all of the services that are currently provided by the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA). This will enable a single agency to deliver the same high quality service, while making it easier for customers to navigate the services offered, and will reduce the administrative burden for those individuals and businesses that currently have regular contact with both DSA and VOSA. The initial move will take place in July this year - a single Chief Executive and transitional board will oversee the two agencies, which will continue in their current form for at least the next twelve months. By that time it is expected that the work to determine the detail of the structural reorganisation will be complete.

The table on the following page summarises the Vehicle and Operator Services Agency's priorities for 2013/14.

A. Peoples
Chief Executive and Accounting Officer
20 June 2013

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[4]arvato Ltd, part of the Bertelsmann Group, were awarded the contract to provide the Government's Independent Shared Services Centre 1 for the delivery of HR, Payroll, Finance and Procurement services in the year.

2013/14 VOSA Performance Measures agreed with our Minister

Reform	**Take forward the Government Digital Strategy:** Increase the take up of the digital service to update operator licences to at least 75% Extend the digital test history service to operators with buses and trailers by March 2014
	Take forward the Motoring Services Strategy: Complete business readiness for migration to a new shared services platform by March 2014 Carry out analysis to determine a model for best business delivery by March 2014
Operational	Introduce a new set of test cycle times using data from HGV and PSV timing exercises to assist Authorised Testing Facilities in better utilisation of test lanes and staff by March 2014
	Conduct 65% of HGV and PSV annual tests at non-VOSA sites by March 2014
	Carry out appropriate preparatory work to support the implementation of the HGV road user levy in April 2014 by March 2014
	Demonstrate the effectiveness of our targeting of non-compliant HGV operators and drivers by achieving an overall prohibition rate at targeted checks that is higher than the rate found through random compliance checks by at least 12 percentage points
	Improve the quality and consistency of vehicle testing through a reduction of 24% in the number of MOT garages still in the highest risk band by March 2014
	Deliver Operator licensing services in line with the SLA agreed with the Transport Regulator within the Department of the Environment (Northern Ireland)
	Retain Customer Service Excellence accreditation for Operator Licensing and the Customer Service Centre by March 2014
	Reduce by 10% the number of complaints not resolved at first contact compared with 2012/13
	Achieve payment of 80% of undisputed and settled invoices within 5 working days
	Complete 93% of Freedom of Information requests within 20 working days
	Provide answers to 100% of Parliamentary Questions by due date
	Respond to 100% of MPs' correspondence within 7 working days
	Respond to 80% of official correspondence within 20 working days
Finance and Efficiency	**Finance** Deliver financial performance in line with published plan Deliver efficiency savings as part of a wider and continuing savings programme of at least £1.4m
	Workforce FTE staff numbers as at 31 March 2014 will be no more than 2,369 Ensure the average number of working days lost due to sickness absence does not exceed 7.5 days
	Protecting the Environment Cut carbon emissions from agency activities by 31 March 2014 by 20% when compared to a 2009/10 baseline

Other priorities for 13/14 include:

- Develop a new approach to the Vehicle Identity Check scheme in response to DfT policy
- Prepare for the implementation of the HGV Road User Levy
- Review the approach to enforcement work carried out on LGVs and stretch limousines
- Improve MOT data transparency

These and other commitments can be found in our published 2013/14 Business Plan on our website.

Sustainability Report

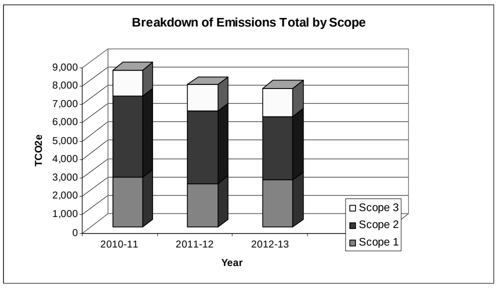
VOSA recognises that it has a significant role to play in delivering sustainable development. We are committed to continuous improvement in sustainability through:

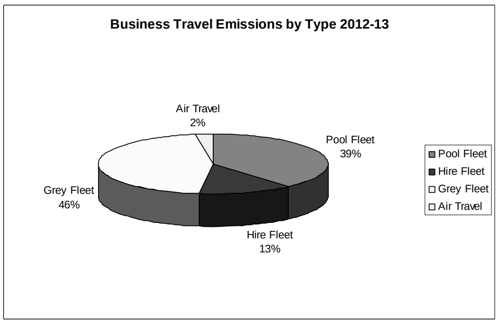
- Complying with all relevant sustainability legislation, regulation and other relevant best practice requirements;
- Assessing our activities to identify sustainability aspects and risks, and ensuring that the impacts are managed and minimised;
- Monitoring, reviewing and reporting performance and progress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

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

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

Greenhouse Gas (GHG) Emissions		2010/11	2011/12	2012/13
Gross Emissions (tonnes CO_2e)	Scope 1: Direct (Gas, Gas Oil and Pool Fleet emissions)	2,726	2,377	**2,596**
	Scope 2: Indirect emissions (Electricity)	4,400	3,962	**3,442**
	Scope 3: Business Travel (Hire Fleet, Grey Fleet and air travel emissions)	1,433	1,438	**1,529**
	Total	8,559	7,777	**7,567**
Related Consumption Data	Gas Consumption (kWh)	6,129,071	5,340,095	**6,874,371**
	Oil Consumption (Litres)	135,397	100,076	**119,396**
	Pool Fleet (Miles)	4,293,310	4,005,521	**3,575,146**
	Electricity: Mains supply (kWh)	8,070,474	7,552,080	**6,614,098**
	Electricity: Self Generated Renewable (kWh)	12,715	16,567	**10,017**
	Hire Fleet (Miles)	601,144	938,248	**1,471,546**
	Grey Fleet (Miles)	3,407,775	3,403,572	**4,234,001**
	Air Travel kms	424,500	357,080	**334,712**
Financial Indicators	Total Energy Expenditure (£'000s)	£1,064	£1,251	**£1,192**
	CRC Related Expenditure (£)	n/a	£64,110	**£54,060**
	Expenditure on Business Travel – hire and fuel costs only (£'000s)	£2,596	£2,820	**£2,807**





DATA SOURCES AND ACCURACY

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

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

Pool fleet emissions cover the entire VOSA-owned fleet and data is collected from mileage sheets and the CO_2 rating of each vehicle is used to calculate the emissions.

Scope 2 – This covers the electricity consumption of approximately 87% of VOSA sites. Only sites where landlords do not invoice separately for this service are excluded. Meter reads and AMR data provide accurate data to our suppliers for invoicing which are used to provide the data.

Scope 3 – Hire mileage is provided by our contractor and calculations use the CO_2 rating of each vehicle.

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

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

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

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

PERFORMANCE COMMENTARY AND TARGETS

VOSA is currently working towards the Greening Government Commitments and has set its own 5% annual reduction target in carbon emissions from its estate and business travel in order to meet the overall 25% reduction required by 2015 (from a 2009/10 baseline). VOSA is currently progressing very well against this target achieving a 20% reduction in the first two years of the target period. Performance in 2012/13 has been affected by the impact of the Testing Transformation Programme as VOSA moves testing closer to the customer. The resulting increase in business travel has therefore reduced the pace of overall performance to 22.4%. VOSA remains on track to meet the GGC target and we will continue the progress we have made through continued estates rationalisation and Agency wide efficiency measures and monitoring.

IMPROVEMENTS AND SUCCESSES

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

During 2012/13 we upgraded the heating system at our headquarters offices in Bristol and have decanted staff from the Annexe building in preparation for surrender at lease end in May 2013. The surrender of the lease and the installation of the new heating system will provide CO_2 savings of 55 tonnes of CO_2 p.a. and provide improved working conditions for staff in Berkeley House.

We have also successfully relocated the Eastern Office of the Traffic Commissioner from City House in Cambridge to Eastgate House. The surrender of the lease at City House represents a reduction of 954 sq m in overall government property footprint and 354 sq m in the VOSA estate.

The ceasing of testing at 13 GVTSs has further contributed to the reduction in CO_2 .

Waste		2010/11	2011/12	2012/13
Non-Financial Indicators	Total Waste Arising (tonnes)	1,804	1,797	**1,369**
	Total Recycled Waste (tonnes)	185	185	**185**
	Total Waste Sent to Energy Recovery (tonnes)	29.52	29.52	**29.52**
	% of Waste Recycled	10	10	**10**
	Paper (no. of reams A4 equivalent)	n/a	22,289	**16,717**
Financial Indicators	Total Waste Expenditure £'000s	£102	£117	**£144**

DATA SOURCES AND ACCURACY

Data includes waste from VOSA's headquarters, offices and GVTS's data. Data is presently unavailable for all other sites. Closed loop recycling data is now available for approximately 78% of sites.

Data is calculated on the size of waste bins on site and the frequency of collections and is therefore based on volume rather than the weight of waste collected. We recognise that this is not an ideal method but we are aiming to improve this by ensuring that new waste contracts include the weight data of each collection being made available. Not all recycling collections are recorded as many are collected in bags rather than in bins whose volumes can be calculated. Paper data is provided by our suppliers and is in reams ordered.

PERFORMANCE COMMENTARY AND TARGETS

VOSA has achieved its target to reduce paper consumption in-year by 10% (against a 2009/10 baseline). This has been achieved through the introduction of more electronic transactions across the business. We will continue to increase the number of our electronic transactions next year.

The new cleaning contract at our headquarters office has reduced the amount of plastic used by using concentrated cleaning chemicals rather than purchasing already diluted cleaning chemicals.

Water		2010/11	2011/12	2012/13
Non-Financial Indicators	Water Consumption m^3	24,954	30,748	23,997
	m^3 per FTE	11.2	14.2	11.3
Financial Indicators	Total Water Expenditure £'000s (including sewerage charges where appropriate)	£260	£204	£169

DATA SOURCES AND ACCURACY

Data reported for both 2012/13 and 2011/12 includes all sites where VOSA is responsible for paying for water consumption and only excludes sites where landlords do not invoice separately for this service.

Data for 2010/11 only includes VOSA sites that were in scope for the previous SOGE targets. Data for all sites for that year are unavailable and explains the drop in consumption.

Data is taken from invoices and regular meter reads are taken to ensure the data is as accurate as possible. Costs provided also include associated sewerage costs charged with water consumption. FTE figures only include VOSA staff based at that site and not visitors or the employees of other Agencies who share some of our sites. We currently have no means of recording this.

PERFORMANCE COMMENTARY AND TARGETS

VOSA has seen a decrease in its water consumption during 2012/13 reflecting maintenance activity to address leakage, and staff/visitor reductions as a result of the testing transformation programme. Regular meter reads are taken to ensure data is accurate and given to the water contractor.

Remuneration Report

Remuneration Policy

VOSA has the authority to determine the terms and conditions relating to the remuneration (excluding pensions) of its own staff below Senior Civil Service grades and the payment of allowances to all staff.

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

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

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

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

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

Service contracts

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

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

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

Remuneration (including salary) and pension entitlements

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

Directors	2012/13		2011/12	
	Salary £'000	Bonus £'000	Salary £'000	Bonus £'000
Mr Alastair Peoples Chief Executive	**105-110**	**0**	105-110	5-10
Mr Andrew White Director	**105-110**	**0**	105-110	0-5
Mr Alex Fiddes Director	**70-75**	**0-5**	80-85	0-5
Mr Paul Coombs Director and Deputy Chief Executive	**80-85**	**5-10**	80-85	5-10
Mr Paul Satoor Director (from April 2012 in 2012/13 and to 31 December 2011 in 2011/12)	**80-85**	**0**	60-65 (80-85 full year equivalent)	0-5
Mrs Pia Wilkes Director (until 5 January 2012)	**n/a**	**n/a**	50-55 (70-75 full year equivalent)	0
Mr Peter Hearn Director (from 1 May 2012)	**70-75 (75-80 full year equivalent)**	**0**	n/a	n/a
Mrs Heather Cruickshank Director (confirmed in role 1 July 2012) and Acting Director (from 1 March 2012)	**65-70**	**0-0**	5-10 (70-75 full year equivalent)	0
*Mr Tony Bryant Acting Director (from January 2012)	**n/a**	**n/a**	40-45 (170-175 full year equivalent)	0
Mr Paul Smith Non-Executive Director	**15-20**	**n/a**	15-20	n/a
Mrs Jill Palmer Non-Executive Director (until 31 July 2012)	**5-10**	**n/a**	20-25	n/a
Mrs Jane May Non-Executive Director (from 1 August 2012)	**10-15**	**n/a**	n/a	n/a
Band of Highest Paid Director's Total Remuneration (£'000)	**105-110**		110-115	
Median Total Remuneration (£)	**26,913**		26,599	
Ratio	**4.0**		4.2	

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

The banded remuneration of the highest paid Director in VOSA in the financial year 2012/13 was £105k-£110k (2011/12 £110k-£115k). This was 4.0 times (2011/12 4.2 times) the median remuneration of the workforce, which was £26,913 (2011/12 £26,599).

No employee received remuneration in excess of the highest paid Director in either 2012/13 or 2011/12.

Remuneration ranged from £14,746 to £105k-£110k (2011/12 £14,695 to £110k-£115k).

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

There was a reduction of 0.2 in the ratio of median remuneration and the highest paid Director in the year.

Salary

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

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The appraisal process within the Agency does not provide time to accrue for individual bonuses relating to 2012/13 performance in the 2012/13 financial statements. The bonuses reported in 2012/13 relate to performance in 2011/12 and the comparative bonuses reported for 2011/12 relate to performance in 2010/11.

Pension Benefits

Directors	Accrued pension at age 60 as at 31/3/13 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/13*	CETV at 31/3/12**	Real increase in CETV	Employee contributions and transfers in
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Mr Alastair Peoples Chief Executive	40-45 plus 125-130 lump sum	0-2.5 plus 0-2.5 lump sum	906	855	1	3,600
Mr Andrew White Director	10-15 plus 0-5 lump sum	0-2.5 plus 0-2.5 lump sum	131	98	16	6,300
Mr Alex Fiddes Director	20-25 plus 70-75 lump sum	0-2.5 plus 0-2.5 lump sum	410	393	(11)	6,400
Mr Paul Coombs Director	5-10 plus 0-5 lump sum	0-2.5 plus 0-2.5 lump sum	75	51	17	4,700

Mr Paul Satoor Director (from 1 April 2012)	0-5 plus 0-5 lump sum	0-2.5 plus 0-2.5 lump sum	20	26	(4)	4,900
Mr Peter Hearn Director (from 1 May 2012)	25-30 plus 75-80 lump sum	0-2.5 plus 0-2.5 lump sum	427	407	(4)	3,300
Mrs Heather Cruickshank	25-30 plus 75-80 lump sum	2.5-5.0 plus 7.5-10.0 lump sum	461	388	50	2,400

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

Civil Service pensions

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

Employee contributions are salary related and range between 1.5% and 3.9% of pensionable earnings for classic and 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

A. Peoples
Chief Executive and Accounting Officer
20 June 2013

Statement of Accounting Officer's Responsibilities

Business Accounts

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed VOSA to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction as set out in Dear Accounting Officer letter [DAO (GEN) 04/12]. The Accounts are prepared under International Financial Reporting Standards (IFRS) on an accruals basis and must give a true and fair view of the state of affairs of VOSA as at 31 March 2013 and of the statement of comprehensive income, changes in taxpayers' equity, and cash flows for the financial year.

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

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

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

Trust Statement

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed VOSA to prepare for each financial year a trust statement in the form and on the basis set out in the accounts direction in Dear Accounting Officer letter [DAO (GEN) 04/12]. The Accounts are prepared under International Financial Reporting Standards (IFRS) on an accruals basis and must give a true and fair view of the state of affairs as at 31 March 2013 relating to the collection and allocation of taxes, licence fees, fines and penalties for the year then ended, and of the statement of revenue, other income and expenditure and cash flows for the financial year.

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

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

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

Governance Statement

ACCOUNTING OFFICER'S INTRODUCTION

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

Corporate Governance is the way in which organisations are directed and controlled, and good governance is vital to effective financial and risk management. HM Treasury's 'Managing Public Money' and 'Financial Reporting Manual' require that I provide a statement on how I have discharged my responsibility to manage and control VOSA's resources for which I am responsible during the year.

In July 2011 HM Treasury introduced a new Corporate Governance Code for central government departments which builds on the principles of the original 2005 code. I have provided details below of how VOSA's system of corporate governance has operated during 2012/13, including any areas where the system has not operated in line with the Code.

GOVERNANCE FRAMEWORK

As an Executive Agency of DfT, VOSA follows the arrangements as set out in the Department's 2011 Framework document. The Agency's annual business plan was submitted to the Secretary of State for endorsement of the key performance measures at the beginning of the year and regular reporting of progress against these has taken place to the Managing Director of the Motoring Services Group.

The VOSA Board conducted an extensive review of the Agency's own governance framework during this year and made several changes to ensure the future needs of the business are met. The Agency's framework identifies how its corporate leadership is organised, how decisions are made, how finances are controlled and how performance and risk are monitored and managed.

It is published in full at
http://www.dft.gov.uk/vosa/corporatepoliciesandstandards/vosacorporategovernanceframework.htm.

Notably the annual Internal Audit of the Agency's Board reporting system including Governance achieved a 'Full' assurance rating.

VOSA Corporate Governance Framework

Members' attendance of the Directing Board during 2012/13:

Directors	Current Role	Attended / Directing Boards Held during tenure
Alastair Peoples	Chief Executive	9/11
Paul Coombs	Resources Director & Deputy Chief Executive	11/11
Paul Satoor	Organisational Development Director	11/11
Alex Fiddes	Next Generation Testing Director	9/11
Peter Hearn	Scheme Management & External Relations Director	10/10
Andrew White	Chief Information Officer	11/11
Heather Cruickshank	Operations Director	8/9
Tony Bryant	Human Resources Director	1/1
Paul Smith	Non-Executive Director	10/11
Jane May	Non-Executive Director	5/6
Jill Palmer	Non-Executive Director	4/4

Members' attendance of the Audit & Risk Committee during 2012/13:

Directors	Current Role	Attended/ Audit & Risk Committees held during tenure
Paul Smith	Non-Executive Director	7/7
Jane May	Non-Executive Director	2/3
Jill Palmer	Non-Executive Director	3/4
Gareth Williams	Non-Executive Member	7/7

Although not members, the Chief Executive and Resources Director regularly attend the Audit & Risk Committee. Other Directors are called to attend as required by the Chair.

DIRECTING BOARD

This provides executive leadership within a framework of prudent and effective controls which enables risk to be assessed and managed and supports me in discharging my role as Accounting Officer. It sets VOSA's strategic aims, ensures financial and human resources are in place to meet objectives and reviews business performance. It also sets VOSA's values and standards and ensures obligations to customers and other stakeholders are understood and met. As I am the Agency Accounting Officer, I choose to Chair the Directing Board. This provides me overall decision making authority on matters for which I am responsible and may be subject to Parliamentary scrutiny.

AUDIT & RISK COMMITTEE

This is a committee of the Directing Board, to advise and support them in their responsibilities for issues of risk control and governance. It reviews the comprehensiveness of assurances in place to meet the Directing Board's needs and reviews the reliability and integrity of these assurances, providing advice where applicable. This includes the reviewing and advising on the implementation of accounting principles in conjunction with external auditors.

REMUNERATION COMMITTEE

The Remuneration Committee has delegated authority to consider the remuneration packages for staff at Level 10 or above (excluding SCS grades), particularly bonus levels. It may also make recommendations to the Directing Board on the Agency's wider contingent reward policy. It should be noted that this Committee did not meet in 2012/13 due to the Civil Service pay freeze.

HEALTH & SAFETY COMMITTEE

As a Committee of the Directing Board, and in accordance with Health and Safety Executive guidance it advises and supports the Directing Board on matters of health and safety policy, structure and communication, reviewing these against legal obligations.

INVESTMENT & CHANGE BOARD

The Investment & Change Board (ICB) has been delegated authority by the Directing Board to appraise and approve business cases for investment providing assurance to the Directing Board that sound decisions are made in relation to the investment of public funds. This Board monitors benefit realisation for projects it has previously approved. The ICB also has delegated authority to govern the development of change proposals to deliver VOSA's Blueprint and business plans.

BUSINESS PERFORMANCE BOARD

The Business Performance Board has delegated authority to ensure VOSA's operational, scheme management, project and programme activity, business plan deliverables and performance targets are met.

THE GOVERNANCE CULTURE

The Agency recognises that the culture we work in impacts on the organisation's success in terms of good governance. As Civil Servants, staff are bound by the Civil Service Code and adherence to the Nolan 7 Principles of Public Life. VOSA has also established its own Values awards scheme to recognise and celebrate staff who demonstrate the unity, integrity, understanding, excellent expertise and responsibility associated with a positive work place and customer experience.

Each Directing Board evaluates the meeting's structure, content and presentation to facilitate informed decision making. During the year the Audit & Risk Committee conducted a review based on the NAO assessment checklist and took forward one area for improvement. In addition, Executive Directors considered the Agency's ongoing business needs to establish that the experience of the Non-Executive Directors continued to provide the independent advice and external assurance required.

RISK MANAGEMENT

The Agency follows HM Treasury guidance with the aim of managing risk to a reasonable level rather than to eliminate all risk of achieving policies, aims or objectives. VOSA's positive culture of risk management is led by the Directing Board which ensures policy and strategy is in place and supported through the embedded risk processes at each level of the Agency. The Board has set a Corporate Risk Appetite to guide staff on matters of internal control. This is published in the Agency's governance framework document. The Corporate Risk Manager oversees the risk management process and provides specialist advice; they report to the Director of Scheme Management and External Relations who is also the Agency Risk Champion. The high level risk register is used by Internal Audit to inform the annual audit programme.

The Board regularly reviews high level risks which have arisen through either a top-down review or bottom-up reporting. There are regular spotlights on specific risks at Board meetings and risk identification workshops during strategic awaydays. The Board receives input from a Risk Scrutiny Panel which considers high level risks against the wider context of the organisation. Each directorate has a local Risk Champion to co-ordinate risk reporting, assist in management of the risks and share best practice across the Agency. The Corporate Risk Manager speaks with the Risk Champions each month on the directorate's risks and holds quarterly meetings to discuss cross-Agency risk management. The Agency also has in place an anonymous email route for reporting risks. The Agency attends the Department's regular Group Risk Management meetings and reports high level risks to the Managing Director of the Motoring Services Group through the Group Monthly Report and regular Agency Performance meetings.

Key areas of responsibility that have been managed through the Agency's corporate risk register this year have been:

- Health & Safety Management Systems – The Agency invested considerable resource this year to ensure staff had the Health & Safety training relevant to their role, that specialist Co-ordinators are in place, risk assessments were reviewed and policies updated as needed. VOSA now has control measures either in place or agreed which ensure this risk is managed within the *Minimalist* risk appetite set by the Board.

- IT Strategy Implementation - Working with the Department, realising the strategy to support business change through modernised IT and delivery methods balanced with the competing demands of technology obsolescence and the expiry of key IT support contracts continues to prove challenging, but manageable.

- Supporting the Agency's Testing Transformation Programme and Authorised Testing Facility Strategies – the implementation of these strategies has been monitored through project risk registers and, where needed, at corporate level. The Agency identified potential risks to deliverables and reputation in relation to the approval process for the Department's Modernising Employment Contracts business case and escalated these to the Managing Director of Motoring Services. The Board agreed various control measures, such as use of hire cars and communication messages, to maintain the opportunity provided by staff operating at non-VOSA sites on goodwill.

- Failure to have the right staff with the right skills to meet VOSA's business needs – The Board regularly discusses matters which may impact either the short or long term staff needs of the business; this includes the change programme and succession planning. Short term needs have been managed through resource reviews with organisation changes, additional resource, national campaigns or fast tracking processes agreed as needed. Longer term, the Agency has started to identify business critical roles and plans are agreed to improve succession planning during 2013/14.

VOSA assesses its risk management culture annually to establish areas of good performance and areas to prioritise for improvement. In recent years it has used the HM Treasury Risk Maturity Model covering Leadership, Strategies & Policies, People, Partnerships, Processes, Handling and Outcomes. The general trend supports that VOSA is maintaining a good maturity level.

The annual Internal Audit of the Agency's Risk Management function received a 'Substantial' assurance rating.

INTERNAL CONTROL

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

- **Business Planning**

  We have clear strategic direction, objectives, responsibilities and key targets in support of government policies through strategic and business planning, affordability, prioritisation, risk identification and benefit realisation.

- **Financial Management and Stewardship**

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

  - A mandatory Investment Control Framework which encompasses HM Treasury *Green Book* and DfT investment appraisal standards for all expenditure. This includes a process of testing whether a proposed project or expenditure offers value for money and considers strategic fit, affordability, realisation on, risk, and benefit realisation These arrangements dovetail with those of DfT for larger investments that require approval at DfT or Ministerial levels and also meet Cabinet Office Major Projects Authority requirements.
  - The Investment Control Framework also addresses financial propriety and other requirements from HM Treasury's Managing Public Money.
  - An Oracle financial accounting system with embedded controls.
  - Asset Management procedures to record and account for all assets.

- **Fraud & Bribery**

  Fraud and bribery related matters are taken seriously by the Agency and reports of any such instances are fully investigated. Fraud Reports are submitted to the Audit and Risk Committee with regular updates provided on counter-fraud measures and investigations undertaken. During the year three cases of fraud were reported, none of which appear to be material, and the investigations are still in progress. Staff awareness briefing, training and whistle blowing instructions are kept up to date. In addition, during this year we have delivered a communication programme for all staff on Sustained Fraud Awareness and mandated the completion of the related Civil Service Learning e-training.

- **Business Change**

The change programme is managed according to the Agency's Governance Framework document to ensure strategic fit, resource capability and managed handover to operational delivery. Managing Successful Programmes, PRINCE2 and Major Projects Authority standards are inbuilt and monitoring of project development against these is an integral element of the Business Change Team role. All Programmes and Projects maintain risks and issues registers which follow the Agency risk reporting guidelines. VOSA uses a range of control tools, such as health checks, gateway reviews and defined roles, to ensure successful delivery of programme and project outcomes. VOSA is a member of DfT's Project and Programme Community and has been pro-active in discussing the outcomes of relevant lessons learned reports from Select Committees this year.

- **Procurement and Contract Management**

VOSA supports the Cabinet Office Procurement policy in particular utilising pan-Government Framework agreements for common category requirements such as fleet, stationery, closed loop and consumables, recruitment and printing. There is a central contract team in place which manages all strategic tenders, provides guidance and approval for local procurements and monitors contract activity and renewal.

- **Compliance with Standards & Requirements**

Our staff, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements. The Agency's arrangements include technical governance procedures, compliance with European Union legislation, ISO accreditation for Individual Vehicle Approval and Vehicle Recalls processes and Customer Service Excellence accreditation for the Customer Service Centre and Operator Licensing Office.

- **Conflicts of Interest**

VOSA is required to disclose 'related third party transactions' in its Annual Accounts. To that end senior staff and certain others complete a Third Party Interests Declaration form, the results of which are recorded in the Register of Third Party Interests.

Directors declare conflicts of interest, where necessary, annually in their Stewardship Certificates and the Chair of Agency Boards and Committees invites members to declare any conflicts at the start of each meeting.

There are no instances of conflict of interest that I need to report.

- **Data Handling, Security and Information Risk**

  The Agency's data and information handling procedures comply with statutory and regulatory requirements. This includes, amongst others, the Data Protection Act (DPA), Freedom of Information Act, Environmental Information Regulations, Road Traffic Act, Computer Misuse Act and protection of Intellectual Property Rights.

  VOSA processes data on behalf of the Secretary of State for Transport. The data owner, under the DPA, is the Secretary of State. The public authority, under the Freedom of Information Act (FOI), is the Department for Transport. VOSA also processes data on behalf of the Traffic Commissioners who are separately named public authorities under the FOI, and have separate notifications under DPA.

  At all times, VOSA seeks compliance with HMG Information Assurance (IA) Standards 1 to 7 and HMG Security Policy Framework, together with Good Practice Guides published periodically by Communications Electronics Security Group (CESG).

  VOSA has a board level Senior Information Risk Owner who acts as the focus for information risks. The Audit and Risk Committee reviews Information Assurance reports twice per annum.

  Staff have completed the relevant annual Protecting Information learning module. VOSA has maintained Level 2 of the Information Assurance Maturity Model and will seek to work towards Level 3 compliance during 2013/14. There have been no significant breaches to report to the Information Commissioner's Office this year.

- **Information Assets**

  The Agency has complied with the Cabinet Office guidance on Information risk management. All staff must agree to an Acceptable Use Policy before accessing IT systems. VOSA has a network of trained Information Asset Owners to ensure the Agency's information assets are managed effectively and appropriate risk controls are in place.

OTHER EXPLICIT REVIEWS/ASSURANCE MECHANISMS

INTERNAL AUDIT

Operating to the standards defined in Government Internal Audit Standards, the qualified audit team completed a programme of audits which were informed by the change programme, risk analysis and other issues identified by Directors. Audit reports and management action trackers were reviewed by the Audit & Risk Committee; some additional assurance was sought in year on the reliability of completion of the latter. The Head of Internal Audit's 2012/13 annual report of his opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control concluded with a 'Reasonable' rating. There are no significant areas of weakness that fall within the scope of issues that should be reported in the Governance Statement.

MANAGEMENT ASSURANCE

Executive Directors complete a mid-year and end of year management assurance report on the full range of delegations, policies and procedures laid down by the Agency and the Department, the adequacy of the arrangements within their directorate and what remedial action is being taken where improvement is needed.

During 2012/13 the Agency has paid particular attention to improving:

- Business Continuity – through the year the Agency has refreshed its Business Continuity administration, communication to staff and governance in line with the Strategy and Policy set by the Board. The business continuity programme allows service to continue to operate during incidents or disruptions ranging from national external threats to localised events. The Agency received praise from the Department for its successful continuity management during a national Electronic Test Booking outage in May.

- Health & Safety – As CEO, I have taken the role of Health & Safety Champion at Board level. Overseen by the Health & Safety Committee, a review programme was completed ensuring policies have been updated, Directorate level H&S Champions are in place and H&S Coordinators have been trained to support operational areas. A dedicated H&S Manager provides advice and monitors the investigation of incidents and near misses. Staff completed the mandated H&S e-learning modules relevant to their roles.

- Records Management – VOSA has a specialist records management team to facilitate compliance with DfT Records Policy, guidance from the National Archives and the Communications Electronic Security Group. The Agency has an established management system for paper based records which is monitored for compliance with the HMG Security Framework. The highest security classification of information held by the Agency is 'Restricted'. The Agency has initiated a project to improve control of the large volume of electronic records held. This is being monitored by the Audit & Risk Committee through the management action tracker system and through project reporting at the Business Performance Board.

- Succession Planning – Directors and Senior Managers have worked with HR Business Partners to identify business critical roles enabling the development of succession plans for the Chief Information Officer and Organisational Development Directorates by the end of this financial year. This good work will carry forward into 2013/14 for the remaining Directorates.

- Equality Duties – During the year we introduced an Equality & Diversity Champion at Board level who now heads a new staff working group. As part of the Agency's People strategy a revised equalities policy was introduced during this year and refresher training was provided to all managers on the equality checks needed when introducing or changing processes. We provided e-learning for all staff and implemented a VOSA Diversity week in December. The HR team monitor and report on progress against DfT's Equality Action plan and are cascading the latest Equality analysis checklist to be used.

Analytical Models – I am aware that in March this year, Nick Macpherson published HM Treasury's final report on reviewing quality assurance of Government analytical models and will ensure that Senior Managers take forward the recommendations during 2013/14.

STEWARDSHIP CERTIFICATES

Each Director completes an annual qualitative assessment known as a Stewardship Certificate which states that by identifying and controlling risks within their Directorate and acting as Risk Steward for designated corporate risks they assist the Agency in achieving its objectives, provide the necessary assurance that their staff have taken due cognisance of internal control requirements and declare any conflicts of interest for themselves, their families and their senior staff.

NON-EXECUTIVE DIRECTORS' STATEMENT

During 2012/13, the Non-Executive team have been involved in both Board and major Board committee discussions and decisions. Based on this exposure to the organisation, and having received management and other independent assurance, we are content that there are no material issues requiring disclosure in the annual governance statement. The Board has continued to function reasonably effectively and thorough discussion and challenge is provided by Executive and Non-Executive team members for each decision. We have asked management and internal audit to identify what would be required to move the assurance level from the present "reasonable" assessment to one of "substantial" so that an informed decision can be made on the cost benefit relationship of taking that next step.

We support and commend the management's continued focus on eliminating the financial deficit, and the progress in so doing, without significantly affecting customer service. In an environment of flat or declining revenues (from nil or low fee increases and volumes flat at best), the Agency needs to continue to focus on continuous efficiency improvements and in managing the cost side through expanding and embedding its lean management efforts.

In terms of concerns, we remain nervous about the implementation of the IT replacement strategy, not least because many of the key decision levers are out of VOSA's hands and need continuing prompt support from the wider Department and from other Government Departments.

AUDITORS

As detailed in the management commentary of this report, VOSA's accounts are audited by the Comptroller & Auditor General and I am confident that they are aware of any relevant audit information.

CONCLUSION

The information and processes outlined in this statement provide me with sufficient assurance that VOSA's governance and internal controls have been effective throughout the year.

Alastair Peoples

Chief Executive and Accounting Officer

20 June 2013

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

I certify that I have audited the financial statements of the Vehicle and Operator Services Agency for the year ended 31 March 2013 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

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

Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by

Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Vehicle and Operator Services Agency's affairs as at 31 March 2013 and of its surplus for the year then ended; and

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

Emphasis of matter

Without qualifying my opinion, I draw attention to the disclosures made in note 1 to the financial statements concerning the Accounting Officer's consideration of going concern in the light of the 20 June 2013 statement by the Minister, following the consultation on the Department for Transport's Motoring Services Strategy. A new single agency is expected to bring together all of the services that are currently provided by the Vehicle and Operator Services Agency and the Driving Standards Agency, with the initial changes taking effect from July 2013. However, the Ministerial statement also indicates that, for at least the next twelve months, it is expected that the two agencies will continue to operate as separate entities. Notwithstanding this statement, there is therefore uncertainty over the Vehicle and Operator Services Agency's ability to continue to operate in its current legal form as a separate trading fund.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
24 June 2013

Annual Accounts

Statement of Comprehensive Income for the year ended 31 March 2013

	Notes	2012/13 £'000s	2012/13 £'000s	2011/12 £'000s	2011/12 £'000s
Income from operations					
Income from statutory activities	2	**171,369**		174,788	
Income from other operating activities	2	**11,388**		13,782	
Total income from operations			**182,757**		188,570
Expenditure from operations					
Staff costs	3	**(78,607)**		(78,065)	
Other operating charges	4	**(66,644)**		(69,962)	
Depreciation/amortisation/ impairment/surplus/(deficit) on disposal	6/7	**(19,458)**		(19,197)	
Total expenditure from operations			**(164,709)**		(167,224)
Net operating surplus			**18,048**		21,346
Finance income	5a	**156**		106	
Finance costs	5b	**(3,910)**		(4,739)	
Net finance costs			**(3,754)**		(4,633)
Surplus for the year			**14,294**		16,713
Dividend payable	5c		**(424)**		0
Retained surplus for the year			**13,870**		16,713
Other Comprehensive Income					
Net surplus/(deficit) on revaluation of property, plant and equipment			**701**		(268)
Other comprehensive income for the year			**701**		(268)
Total comprehensive income for the year			**14,571**		16,445

Statement of Financial Position as at 31 March 2013

	Notes	31 March 2013 £'000s	31 March 2012 £'000s
Non-current assets			
Property, plant and equipment	6	**98,605**	107,037
Intangible assets	7	**17,878**	25,396
Trade and other receivables due after more than one year	9b	**5,162**	10,500
Total non-current assets		**121,645**	142,933
Current assets			
Trade & other receivables	9a	**13,684**	8,269
Assets held for resale	8	**1,833**	0
Cash & Cash Equivalents	12	**62,379**	51,634
Total current assets		**77,896**	59,903
Total assets		**199,541**	202,836
Current liabilities			
Trade and other payables	10a	**(72,472)**	(70,964)
Provisions for liabilities and charges	15	**(2,843)**	(3,518)
Total current liabilities		**(75,315)**	(74,482)
Total assets less current liabilities		**124,226**	128,354
Non-current liabilities			
Trade and other payables due after more than one year	10b	**(20,443)**	(27,036)
Provisions for liabilities and charges	15	**(5,291)**	(6,438)
Total non-current liabilities		**(25,734)**	(33,474)
Net Assets		**98,492**	94,880
Taxpayers' Equity			
Public Dividend Capital	16	**28,983**	28,983
Loans from the Secretary of State	18	**51,056**	62,015
Revaluation Reserve		**21,535**	20,834
General Fund		**(3,082)**	(16,952)
		98,492	94,880

A Peoples
Chief Executive and Accounting Officer
20 June 2013

Statement of cash flows for the year ended 31 March 2013

	Notes	2012/13 £'000s	2011/12 £'000s
Cash flows from operating activities			
Surplus for the year		**14,294**	16,713
Adjustments for:			
Depreciation/amortisation/ impairment/surplus/(deficit)on disposal	6/7	**19,458**	19,197
Net financing costs		**3,754**	4,633
(Increase)/ Decrease in trade & other receivables	9	**(77)**	2,072
Increase in trade and other payables	10	**3,174**	6,944
Write-off of Loan from Secretary of State		**(0)**	(3,280)
(Use)/Creation of provisions		**(1,822)**	1,625
Net cash (outflow)/inflow from operating activities		**38,781**	47,904
Cash flows from investing activities			
Purchase of property, plant and equipment	6	**(3,200)**	(868)
Purchase of intangible assets	7	**(1,281)**	(990)
Proceeds from disposal of property, plant and equipment		**56**	2,041
Finance income	5	**156**	106
Net cash (outflow)/inflow from investing activities		**(4,269)**	289
Net cash flows from financing activities			
Repayment of loans from the Secretary of State		**(13,929)**	(19,192)
Repayment of capital under PFI contract		**(5,928)**	(5,646)
Finance costs	5	**(3,910)**	(4,739)
Net cash (outflow)/inflow from financing activities		**(23,767)**	(29,577)
Net increase in cash and cash equivalents		**10,745**	18,616
Cash and cash equivalents at 1 April		**51,634**	33,018
Cash and cash equivalents at 31 March		**62,379**	51,634

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

	2012/13 £'000s		2011/12 £'000s	
Increase in cash in the period		**10,745**		18,616
Repayment of loan from Secretary of State	**13,929**		19,192	
Write-off of loan from Secretary of State	**0**		3,280	
		13,929		22,472
Change in net funds		**24,674**		41,088
Net funds at 1 April		**(24,468)**		(65,556)
Net funds at 31 March		**206**		(24,468)

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	General Fund	Loans from the Secretary of State	Revaluation Reserve	Public Dividend Capital	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2011	(35,299)	76,102	22,736	28,983	**92,522**
Surplus for the year to March 2012	16,713	0	0	0	**16,713**
Transfer of long term loans to current liabilities	0	(14,087)	0	0	**(14,087)**
Other Comprehensive Income					
Net movement on revaluation of property, plant and equipment	1,634	0	(1,902)	0	**(268)**
Total Other Comprehensive Income	1,634	0	(1,902)	0	**(268)**
Total Comprehensive Income for the year 2011/12	18,347	(14,087)	(1,902)	0	**2,358**
Balance at 31 March 2012	**(16,952)**	**62,015**	**20,834**	**28,983**	**94,880**
Surplus for the year to March 2013	13,870	0	0	0	**13,870**
Transfer of long term loans to current liabilities	0	(10,959)	0	0	**(10,959)**
Other Comprehensive Income					
Net movement on revaluation of property, plant and equipment	0	0	701	0	**701**
Total Other Comprehensive Income	0	0	701	0	**701**
Total Comprehensive Income for the year 2012/13	13,870	(10,959)	701	0	**3,612**
Balance at 31 March 2013	(3,082)	51,056	21,535	28,983	**98,492**

The notes on pages 53 to 84 form part of these Accounts

Notes to the Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2012/13 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2013 and have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may be adopted in subsequent periods:

- IAS 1 Presentation of financial statements (Other Comprehensive Income (OCI)), will require the grouping of items on the basis of whether they might be reclassified from OCI to surplus or not. This will make it clearer to users what their potential impact on surplus or deficit will be in future periods, and where there will be no impact. Application of this amendment is required for reporting periods beginning on or after 1 January 2013, though inclusion in the FReM is subject to consultation;

- IFRS 7 Financial Instruments: an amendment will come into effect in 2013/14 dealing with disclosure concerning netting arrangements. This will have no impact as we do not have netting arrangements;

- IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after 1 January 2015. Initial application of IFRS 9 is expected to have a limited impact;

- IFRS 10 and 11 cover the definition of and accounting treatment required for subsidiaries and jointly controlled operations. Within government, consolidation boundaries are determined by HM Treasury based upon Office for National Statistics sector classification. These classifications do not recognise the concept of an operation controlled jointly across different sectors. It is therefore unclear what impact this will have;

- IFRS 12 covers disclosures of interests in other entities. This standard will have no impact;

- IFRS 13 sets out the framework for measuring fair value. It is considered unlikely that IFRS 13 will have a material impact; and
- Revisions to IAS 16 set out the rationale for the classification of servicing equipment as property, plant and equipment instead of classification as inventory under IAS2. It is expected that this revised IAS will have no impact;
- The International Accounting Standards Board (IASB) is currently developing a replacement to the existing leasing standard, which is expected to eliminate off-balance sheet leasing arrangements, and require recognition of a single right–of-use asset, measured at the present value of the lease payments. As VOSA currently occupies properties under operating leases, this is likely to have an impact on the statement of financial position.

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

a) Basis of preparation

The Accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets, in a form directed by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973. They comply with the accounting and disclosure requirements of the Companies Act 2006, and the accounting standards issued or adopted by the International Accounting Standards Board, in so far as those requirements are appropriate.

b) Non-current assets

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

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

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

Where property assets are identified as locations where heavy vehicle testing will cease, the carrying value of the building is impaired to a fair value, and the equipment at these locations, if identified as surplus to operational use, is impaired to a nominal value i.e.fair value approximately equal to nil.

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

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

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

Title to the freehold land and buildings is held by DfT, in the name of the Secretary of State. The control and management of the freehold land and buildings is vested in VOSA as if legal transfer has been effected.

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

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

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

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

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

c) Depreciation

- Properties

A full year's depreciation is charged in the first year that properties are commissioned and on any revaluation. The depreciation charge is calculated to write down the properties by equal instalments over their estimated useful lives as follows:

Freehold buildings	10-40 years

Leasehold property is fully written down over the term of the lease with the exception of Chadderton where the lease is 999 years and the leasehold property is written down over 60 years.

Freehold land is not depreciated.

- Other categories

Depreciation is charged from the month of implementation and is calculated to write down the assets on a straight line basis over their estimated useful lives, as follows:

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

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

d) Assets held for sale

Assets held for sale comprise of properties, equipment and motor vehicles that are no longer in operational use and earmarked for disposal. These assets are available for immediate sale in their present condition and are being actively marketed. The assets are reclassified from non-current assets to current assets at the lower of the carrying amount and fair value less cost to sell. Assets held for sale are not depreciated.

e) Leasing

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

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

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

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

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

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

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

There is a finance lease embedded within the contract for the provision of computer hardware and MOT software. VOSA accounts for the liability as a finance lease. The costs that relate to the delivery of the MOT scheme are charged to the Statement of Comprehensive Income on an accruals basis. (see notes 7, 20 & 21)

Under the terms of the contract, costs are payable by either party as a result of default of their obligations or voluntary break of the contract before the official termination date. These termination costs will vary dependent on the period of the contract that has expired.

f) Research and Development

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

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

g) Pension Scheme and Early Retirement Scheme

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) in respect of their pensions. The PCSPS is an unfunded multi-employer defined benefit scheme. VOSA is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Consequently, a formal actuarial valuation would have been due by 31 March 2011. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). Payment is made by VOSA into the Consolidated Fund of such sums to cover the accruing liabilities in respect of Superannuation benefits for persons who have been employed in the funded operations, and in respect of the administrative expenses attributable to the liabilities and their discharge.

VOSA operates an Early Retirement Scheme which continues to pay retirement benefits to certain qualifying employees. These benefits conform to the rules of the Civil Service Compensation Scheme. VOSA bears the cost of these benefits until the normal retiring age of the employees retired under the Early Retirement Scheme. The total pension liability up to normal retirement in respect of each employee has been charged to the Statement of Comprehensive Income in the year in which the employee took early retirement and a provision for the future pension payments has been created. Funds are released from that provision annually to fund pension and related benefits payments to the retired employee until normal retirement age.

h) Value Added Tax

VOSA is not separately registered for Value Added Tax (VAT). VAT is accounted for centrally by DfT. Through the DfT registration, under specific Treasury Direction, VOSA recovers input VAT on certain contracted-out services. Income and expenditure are shown net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised within additions to non-current assets.

i) Income recognition

Income for applications for operator licences, the granting of licences and the registration of bus routes is recognised at the time of application, grant, etc. For all testing activities, income is recognised at the time a test is performed. For all vehicle disc and continuation fees, income is apportioned equally over the length of the 5 year licence. All tests which have yet to be performed and licences with remaining terms left on the licence at the statement of financial position date are shown as liabilities. Income for the capability to test vehicles on the MOT computerised system is recognised when testing "slots" are sold.

j) Central funding

In accordance with conditions placed on funding received from Central Government budgets or other Departmental sources, funds are released to the Statement of Comprehensive Income in-year against expenditure incurred, or in the case of capitalised assets, amortised over the useful economic life of the asset.

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

k) Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the statement of financial position date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

l) Critical accounting judgements and estimates

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

- Provision for liabilities and charges

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

- Impairment

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

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

- Carrying value of property, plant and equipment

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

- Provision for doubtful debts

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

m) Financial Instruments

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

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

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

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

n) Cash and cash equivalents

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

o) Going concern

On 20 June 2013, the Minister issued a statement to the House outlining changes to the role of the Agency following the consultation on the Department's Motoring Services strategy that ran from 13 December 2012 to 7 March 2013 as part of our commitment to delivering better quality and better value services to the public and business. A new single agency will bring together all of the services that are currently provided by the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA). This will enable a single agency to deliver the same high quality service, while making it easier for customers to navigate the services offered, and will reduce the administrative burden for those individuals and businesses that currently have regular contact with both DSA and VOSA. The initial move will take place in July this year - a single Chief Executive and transitional board will oversee the two agencies, which will continue in their current form for at least the next twelve months. By that time it is expected that the work to determine the detail of the structural reorganisation will be complete. Due to the fact that the statutory duties of the Vehicle and Operator Services Agency will continue to be provided by the new agency following the merger, management considers it appropriate to continue to adopt the going concern basis in preparing the Annual Report and Accounts; notwithstanding that the future status of VOSA as a separate legal entity will be subject to uncertainty.

2. Income and surplus/(deficit) on activities

The following information is produced for Fees and Charges purposes and also meets some of the disclosures on segmental reporting required under IFRS 8 – Operating Segments. Income represents the revenue received for services provided by VOSA. All activities were carried out in the United Kingdom.

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

For the year ended 31 March 2013

Activity/Segment	Testing	Administration of MOT scheme and standards control	Enforcement Work*	Licensing and Compliance	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Income	59,870	57,386	42,256	11,857	171,369
Expenditure	51,171	51,670	40,271	14,387	157,499
Surplus/(Deficit)	**8,699**	**5,716**	**1,985**	**(2,530)**	**13,870**

Reconciliation to reportable segment income and retained surplus	
Retained surplus for the year	13,870
Adjustments	0
Trading surplus after adjustments	**13,870**

For the year ended 31 March 2012

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

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

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

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

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

- **Other operating income**

	2012/13 £'000s	2011/12 £'000s
Voluntary Testing	**3,938**	4,290
Release of Central Funding to offset costs	**3,492**	2,986
Provision of Goods Vehicle Operator Licensing Services to Department of Environment, Northern Ireland	**1,063**	0
Rental Income	**841**	909
Replacement Documents	**598**	631
Commercial Training	**508**	509
Write-off loan from Secretary of State	**0**	3,280
Funding of Restructuring Costs	**0**	803
Other	**948**	374
Total of other operating income	**11,388**	**13,782**

Other operating income relates predominantly to non-statutory testing activities and central funding received to enable VOSA to carry out projects and policy objectives that are assigned to it by DfT. Also included last year is the funding provided by DfT for restructuring costs and the write-off of a loan from the Secretary of State.

This other operating income is netted off the expenditure shown in Note 2 above, but is separately shown on the face of the Statement of Comprehensive Income.

3. Staff costs

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

2012/13	Permanently employed staff £'000s	Short –term employment contract and Agency staff £'000s	Total £'000s
Wages and salaries	60,305	2,846	**63,151**
Social Security costs	4,663	0	**4,663**
Other pension costs	10,728	0	**10,728**
Early retirement costs	184	0	**184**
Sub total	75,880	2,846	**78,726**
Less recoveries in respect of outward secondments	(119)	0	**(119)**
Total staff costs	**75,761**	**2,846**	**78,607**

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

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

For 2012/13, employer contributions of £10,629,000 were payable to the PCSPS (2011/12 £10,713,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. Employee contributions capitalised during 2012/13 amounted to £72,000. No amount of employee contributions were capitalised during 2011/12. The employer contribution rates are set to meet the cost of the benefits accruing during 2012/13 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £80,000 (2011/12 £76,000) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employees' contributions up to 3% of pensionable pay. In addition, two individuals retired early on ill-health grounds with the total additional accrued pension liabilities in the year amounting to £3,555 (2011/12 three persons; £6,218).

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

VOSA Pay Level	Broad category of staff in band	Number 2012/13	2011/12
L1	Handypersons	**18**	23
L2	Testers, Assistant Administrative Officers	**106**	107
L3	Vehicle Inspectors, Administrative Officers, Apprentices	**829**	821
L4/L5	Vehicle and Traffic Examiners, Executive Officers	**788**	780
L6	Senior Vehicle Examiners, Senior Traffic Examiners, Higher Executive Officers	**288**	317
L7	Area Managers, Senior Executive Officers	**89**	83
G7	Senior Management	**31**	30
G6	Directors	**4**	3
	Senior Civil Servants	**3**	3
	Average number of employees	**2,156**	2,167
	Average number of Traffic Commissioners and Deputy Traffic Commissioners support	**7**	9
	Agency and Contractor (man years)	**56**	63
	Secondments Inward	**0**	0
	Secondments Outward	**(5)**	(1)

As at 31 March 2013 the actual number of full time equivalent employees was 2,178 compared with 2,131 on 1 April 2012, an increase of 47. The average number of agency and contractors was 44 at 31 March 2013 compared with 64 on 1 April 2012, a decrease of 20. The total establishment at 31 March 2013 was 2,222 compared with 2,195 at 1 April 2012, an increase of 27.

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

Exit package cost band	2012/13 Number of compulsory redundancies	2012/13 Number of other departures agreed	2011/12 Number of compulsory redundancies	2011/12 Number of other departures agreed
Less than £10,000	**0**	**0**	0	2
£10,000 - £25,000	**0**	**0**	0	21
£25,000 - £50,000	**0**	**0**	0	13
£50,000 - £100,000	**0**	**0**	0	0
£100,000 - £150,000	**0**	**0**	0	0
£150,000 - £200,000	**0**	**0**	0	0
£200,000 plus	**0**	**0**	0	0
Total number of exit packages by type	**0**	**0**	0	36
Total expenditure (£'000)	**0**	**0**	0	818

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Ill-health retirement costs are met by the pension scheme and are not included in the table.

During the financial year 2012/13 there were no payments made which were not covered by the Civil Service Compensation Scheme.

4. Other operating charges

The constituent parts of other operating charges are as follows:

	2012/13 £'000s	2011/12 £'000s
MOT Scheme PFI service charges	**22,020**	22,143
Information technology	**14,301**	14,954
Estate running and maintenance costs	**6,613**	5,431
Travel and subsistence	**5,837**	5,334
Rent	**3,279**	5,542
Rates	**2,770**	2,821
Equipment maintenance costs	**2,311**	2,987
Legal and banking	**2,090**	1,964
Traffic Commissioners and Deputy Traffic Commissioners (see note 25)	**1,382**	1,432
Postage and stationery	**1,205**	1,305
Telecommunication costs	**1,074**	1,423
Training and conferences	**510**	561
Hire of plant and machinery	**472**	491
Provision of payroll services	**320**	366
MOT Scheme IT costs	**298**	695
Recruitment	**142**	32
Consultancy	**82**	75
Statutory audit fees	**80**	78
Customer research	**55**	40
Publications	**51**	46
Non-Executive Directors – fees and expenses	**36**	41
Advertising	**4**	111
Other	**1,712**	2,090
Total of other operating charges	**66,644**	69,962

5. Finance income, costs and dividend payable

a. Finance income

Interest receivable	2012/13 £'000s	2011/12 £'000s
Bank interest on cash deposits	**156**	106
Total finance income	**156**	**106**

b. Finance costs

Interest payable on:	2012/13 £'000s	2011/12 £'000s
Long term loans to the Secretary of State	**2,960**	3,506
Finance leases	**0**	0
Imputed Finance lease element of on balance sheet PFI contracts	**950**	1,233
Total finance costs	**3,910**	4,739

c. Dividend payable

VOSA's average rate of return on capital for 2012/13 was 22.3% against the financial target of an average 3.5%, as stated in Annex A on page 85 of the Annual Report. The calculation of this outturn is set out below:

	£'000	£'000
Surplus for the year		**14,294**
Adjustments for non operating items:		
Impairment of assets	4,342	
Loss on disposal of assets	8	
Actual return made by way of interest payments	2,960	
Total adjustments		**7,310**
Revised surplus for return on capital purpose		**21,604**
Average capital employed over the year		**96,686**
Return on capital		**22.3%**

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

The calculated level of return to the Treasury is £3,384,000 based on the target average return of 3.5%. As the interest paid on long-term loans totals less than the calculated level of return, a dividend is payable in respect of the 2012/13 financial year to the value of £424,000 which has been provided for in these accounts.

No dividend was paid in 2011/12 as the interest paid on long-term loans was greater than the calculated level of return.

6) Property, plant and equipment

2012/13 £'000	Land	Buildings	Plant & Equipment	Transport Equipment	Information & Communication Technology	Assets in the course of Construction	Total
Cost or valuation							
At 1 April 2012	25,838	127,367	35,827	7,321	4,694	1,050	**202,097**
Additions	1	1,981	58	1,500	189	(318)	**3,411**
Disposals	0	(1,274)	(1,984)	(277)	(12)	(0)	**(3,547)**
Reclassification	(1,122)	(2,252)	(453)	47	52	(500)	**(4,228)**
Revaluation	471	(1,070)	405	156	518	0	**480**
At 31 March 2013	25,188	124,752	33,853	8,747	5,441	232	**198,213**
Accumulated Depreciation							
At 1 April 2012	0	56,389	29,629	5,247	3,795	0	**95,060**
Charges for year	0	3,376	1,137	925	872	0	**6,310**
Disposals	0	(1,260)	(1,940)	(277)	(12)	0	**(3,489)**
Reclassification	0	(1,937)	(445)	(13)	0	0	**(2,395)**
Revaluation	0	3,287	330	110	395	0	**4,122**
At 31 March 2013	0	59,855	28,711	5,992	5,050	0	**99,608**
Net Book Value							
At 1 April 2012	25,838	70,978	6,198	2,074	899	1,050	**107,037**
At 31 March 2013	25,188	64,897	5,142	2,755	391	232	**98,605**
Asset Financing							
Owned Assets	25,188	42,414	5,142	2,667	391	232	**76,034**
Leased Assets	0	22,483	0	88	0	0	**22,571**
Net book value as 31 March 2013	**25,188**	**64,897**	**5,142**	**2,755**	**391**	**232**	**98,605**

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

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

- **Property Valuations**

Twenty percent of VOSA's land and buildings were valued by the Valuation Office Agency (VOA) on the basis of market value for existing use in accordance with the Royal Institution of Chartered Surveyors' guidance.

All properties were occupied by VOSA during the year.

- **Other Asset Valuations**

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

Surpluses arising from the application of indices to other categories of assets are credited to the revaluation reserve. Diminutions in value in respect of other categories of assets are considered to be of a permanent nature and the deficit arising is charged firstly to the revaluation reserve, to the extent of any surplus brought forward in respect of those asset categories and any further deficit is charged to the Statement of Comprehensive Income.

The net deficit arising in the year is £3,642,000 (2011/12 £1,311,000). An amount of £701,000 has been added to the revaluation reserve with the recognition of impairments of £4,342,000, £79,000 on land and £4,263,000 on buildings. (2011/12 an amount of £268,000 was charged to the revaluation reserve following recognition of impairments of £1,043,000, £76,000 on land, £610,000 on buildings and £357,000 on equipment).

The total amount charged to the Statement of Comprehensive Income on the disposal of assets during the year was £8,000. This was represented by minimal values (<£64,000) in freehold buildings, equipment, vehicles and information technology assets. Proceeds from the sale of these assets totalled £56,000.

- **Heritage Assets**

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

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

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

7) Intangible assets

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

2012/13 £'000	**Software**	**Assets in the course of Construction**	**Total**
Cost or valuation			
At 1 April 2012	91,638	959	**92,597**
Additions	406	875	**1,281**
Disposals	(6,891)	0	**(6,891)**
Reclassification	411	(411)	**0**
Revaluation	0	0	**0**
At 31 March 2013	85,564	1,423	**86,987**
Amortisation			
At 1 April 2012	67,201	0	**67,201**
Charges for year	8,799	0	**8,799**
Disposals	(6,891)	0	**(6,891)**
Reclassification	0	0	**0**
Revaluation	0	0	**0**
At 31 March 2013	69,109	0	**69,109**
Net Book Value			
At 1 April 2012	24,437	959	**25,396**
At 31 March 2013	**16,455**	**1,423**	**17,878**
Asset Financing			
Owned Asset	3,135	1,423	**4,558**
PFI Contract	13,320	0	**13,320**
Net Book Value at 31 March 2013	**16,455**	**1,423**	**17,878**
Significant Intangible Assets controlled by the Agency were as follows:		Remaining Life	Net Book Value at 31 March 2013
Electronic test booking		<1	10
MOT Computerisation System		3	15,414
Banking Security		<1	208
Licensing		<1	12
Disaster recovery (part 1)		2	72
National Register		>2	140
Disaster Recovery (part 2) & Interconnectivity		AUC	1,423
Other software		>1	599
Net book value at 31 March 2013			**17,878**

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

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

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

8. Assets classified as held for sale

	31 March 2013 £'000s	31 March 2012 £'000s
At 1 April 2012	**0**	0
Reclassified in year as held for resale	**1,833**	0
Disposals in year	**0**	0
At 31 March 2013	**1,833**	0

Assets identified as being surplus to operational need are held at their net estimated market value awaiting disposal. It is expected that the sale of these assets will be completed during the 2013/14 financial year.

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

9. Trade and Other Receivables

a) Amounts falling due within one year:

	31 March 2013 £'000s	31 March 2012 £'000s
Trade receivables	**5,532**	5,678
Interest receivable	**14**	12
Recoverable VAT	**2,068**	1,473
Prepayments and accrued income	**5,996**	1,050
Other receivables	**74**	56
Total receivables due within one year	**13,684**	8,269

Intra-Government Receivable Balances

	31 March 2013 £'000s	31 March 2012 £'000s
Balances with other Central Government bodies	**7,265**	6,938
Balances with Public Corporations and Trading Funds	**125**	180
Balances with Local Authorities	**129**	117
Intra-government balances	**7,519**	7,235
Balances with bodies external to Government	**6,165**	1,034
Total receivables	**13,684**	8,269

b) Amounts falling due after more than one year:

	31 March 2013 £'000s	31 March 2012 £'000s
Prepayments and accrued income	**5,162**	10,500
Total receivables falling due after more than one year	**5,162**	10,500

Intra-Government Receivable Balances

	31 March 2013 £'000s	31 March 2012 £'000s
Balances with other Central Government bodies	**0**	0
Balances with Public Corporations and Trading Funds	**0**	0
Balances with Local Authorities		0
Intra-government balances	**0**	0
Balances with bodies external to Government	**5,162**	10,500
Total receivables	**5,162**	10,500

10) Trade and Other Payables

a) Amounts falling due within one year:

	31 March 2013 £'000s	31 March 2012 £'000s
Trade payables	**3,739**	894
Payroll liability	**2,604**	2,529
Other trade liabilities	**356**	692
Loans due within one year	**11,117**	14,087
Accruals and deferred income	**15,322**	13,821
Fees in advance	**16,567**	14,914
Central funding from DfT (see below)	**15,618**	17,325
Finance leases	**31**	0
Current part of imputed finance lease element of PFI contract	**6,225**	5,928
Capital accruals	**893**	774
Total current liabilities	**72,472**	**70,964**

Central funding from DfT	31 March 2013 £'000s	31 March 2012 £'000s
Development of systems in preparation for transfer to Shared Services	**5,771**	6,455
Development of High Risk Traffic Initiative Sites	**4,853**	3,500
Installation of canopies and pit lanes at strategic enforcement sites	**1,800**	1,800
Implementation of National Register – Interconnectivity	**1,534**	1,614
Implementation of Testing Transformation Programme	**127**	1,102
Installation of ANPR capability across VOSA enforcement vehicle fleet	**1,000**	1,000
Provision of ANPR/WIMS capability across national network	**0**	840
Implementation of Whole of Europe Vehicle Type Approval scheme	**438**	555
Implementation of Digital Tachograph scheme	**0**	265
Installation of Automatic Meter Reader at VOSA sites	**85**	121
Implementation of Graduated Fixed Penalty and Deposits scheme	**0**	46
Other – Proceeds from Crime and London Low Emissions Zone funding from Transport for London	**10**	27
Total Central funding	**15,618**	**17,325**

b) Amounts falling due after more than one year:

	31 March 2013 £'000s	31 March 2012 £'000s
Other trade liabilities greater than one year	**25**	110
Finance leases greater than one year	**61**	0
Deferred Income	**10,430**	10,774
Imputed finance lease element of PFI contract	**9,927**	16,152
Total non current liabilities	**20,443**	27,036

c) Intra-Government Liability Balances:

	31 March 2013 £'000s		31 March 2012 £'000s	
	Liabilities due within 1 year	Liabilities due after 1 year	Liabilities due within 1 year	Liabilities due after 1 year
Balances with other Central Government bodies	**27,444**	**0**	27,584	0
Balances with Public Corporations and Trading Funds	**20**	**0**	2	0
Balances with Local Authorities	**783**	**0**	53	0
Intra-government balances	**28,247**	**0**	27,639	0
Balances with bodies external to Government	**44,225**	**20,443**	43,325	27,036
Total Liabilities	**72,472**	**20,443**	70,964	27,036

11) Finance leases

As at 31 March 2013 the obligations under finance leases relate to the MOT Computerisation PFI Contract, (of which details can be found in notes 20 & 21), and motor vehicles acquired during the year through a new leasing arrangement as set out in the table below.

	31 March 2013 £'000	31 March 2012 £'000
Total obligations under finance leases for the following periods comprise:		
Not later than one year	**50**	0
Later than one year and not later than five years	**78**	0
Later than five years	**0**	0
Sub total	**128**	0
Less interest element	**(36)**	(0)
Total	**92**	0

12) Cash & Cash Equivalents

	31 March 2013 £'000s	31 March 2012 £'000s
Government Banking Service	**62,379**	51,634
Total	**62,379**	51,634

13) Fines remitted to HM Treasury

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

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

14) Analysis of changes in net funds

Net Funds are represented by balances at the Government Banking Service less loans due to DfT.

	At 1 April 2012 £'000s	Cash Flow £'000s	Other Changes £'000s	At 31 March 2013 £'000s
Balances at Government Banking Service	51,634	10,745	0	**62,379**
Loans due within one year	(14,087)	13,929	(10,959)	**(11,117)**
Loans due after one year	(62,015)	0	10,959	**(51,056)**
Total	(24,468)	24,674	0	**206**

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

15) Provisions for liabilities and charges

	Early Departure £'000s	Lease Obligations £'000s	Other £'000s	Total £'000s
At 1 April 2012	5,695	2,339	1,922	**9,956**
Increase in provisions and liabilities in the year	0	0	143	**143**
Utilised in-year	(1,292)	(75)	(366)	**(1,733)**
Release of provision not required	0	0	(202)	**(202)**
Unwinding of discount	(30)	0	0	**(30)**
At 31 March 2013	**4,373**	**2,264**	**1,497**	**8,134**

Analysis of expected timing of discounted flows

	Early Departure £'000s	Lease Obligations £'000s	Other £'000s	Total £'000s
In one year or less, or on demand	1,268	78	1,497	**2,843**
In more than one year but less than two years	809	78	0	**887**
In more than two years but no more than five years	1,611	234	0	**1,845**
In more than five years	685	1,874	0	**2,559**
Total	**4,373**	**2,264**	**1,497**	**8,134**

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

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

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

16) Public Dividend Capital

	31 March 2013 £'000s	31 March 2012 £'000s
As at 1 April	**28,983**	28,983
As at 31 March	**28,983**	28,983

Public Dividend Capital (PDC) of £19,100,000 was issued to the Trading Fund on 1 April 1991. This represented 57% of the value of the assets vested at that date. In 1996/97 additional PDC of £1,231,000 was issued. This represented 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate. Additional PDC was issued of £8,652,000, being 50% of the vesting capital of the new Trading Fund Order upon the merger of the Traffic Area Network and the Vehicle Inspectorate Trading Fund on 1 April 2003. The total PDC issued at 31 March 2013 is £28,983,000.

17) Financial Instruments

- **Fair Values**

The fair values of the Agency's financial assets and liabilities at 31 March 2013 are shown below. With the exception of the Imputed Finance Lease element of the Private Finance Initiative (PFI) Contract and the Finance leases in the table below, due to the short term nature of the financial instruments held, carrying value is considered to represent fair value.

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

	2012/13 Fair Value £'000s	2012/13 Carrying amount £'000s	2011/12 Fair Value £'000s	2011/12 Carrying amount £'000s
Financial Assets				
Cash and cash equivalents (Note 12)	**62,379**	**62,379**	51,634	51,634
Receivables (Note 9)				
Trade receivables	**5,532**	**5,532**	5,678	5,678
Interest receivable	**14**	**14**	12	12
Recoverable VAT	**2,068**	**2,068**	1,473	1,473
Other receivables	**74**	**74**	56	56
Total receivables	**7,688**	**7,688**	7,219	7,219
Total Financial Assets	**70,067**	**70,067**	**58,853**	**58,853**
Financial Liabilities				
Trade and other payables (Note 10)				
Trade payables	**3,739**	**3,739**	894	894
Payroll liability	**2,604**	**2,604**	2,529	2,529
Other trade liabilities	**381**	**381**	802	802
Long term loans due within one year	**11,117**	**11,117**	14,087	14,087
Fees in advance	**16,567**	**16,567**	14,914	14,914
Finance leases	**88**	**92**	0	0
Imputed finance lease element of PFI contract	**15,865**	**16,152**	21,684	22,080
Capital accruals	**893**	**893**	774	774
Total Financial Liabilities	**51,254**	**51,545**	**55,684**	**56,080**

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

- **Financial Risk Management**

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

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

- **Overall procedures for managing risk**

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

The financial systems of management control established include:

- A monthly monitoring cycle, which supports budgetary controls, monitoring volume and change demand. This process is fundamental as part of our efficiency and Value for Money (VfM) planning and monitoring, especially in respect of headcount;
- Business Performance Board (BPB) - chaired by a Director, the BPB meets on a monthly basis to review all elements of operational performance for the organisation;
- Investment and Change Board (ICB) – chaired by a Director, the ICB meets on a monthly basis to review all proposals of change and their impact across the organisation, stakeholders and customers and also reviews all investment proposals;
- Monthly reporting (including KPIs, income and expenditure, programme expenditure) to our sponsor, the Motoring Services Group of the Department for Transport; and
- Biannual review of Directorate budgets and performance at CEO/Director Review meetings.

- **Credit risk**

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

- **Exposure to credit risk**

The carrying amount of the financial assets £70,067,000 (31 March 2012 £58,853,000) represents the maximum credit exposure.

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

	31 March 2013 £'000s	31 March 2012 £'000s
Not past due	**7,508**	1,545
Past due 0 - 30 days	**174**	5,581
Past due 31 - 120 days	**2**	5
More than 120 days	**4**	88
Total	**7,688**	**7,219**

There has been no impairment provision for 2012/13 (2011/12 £nil). As the majority of the Agency's balances comprise other Government Departments and Agencies, it believes that no further impairment allowance is necessary in respect of other trade receivables.

- **Liquidity risk**

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

31 March 2013:

Non derivative financial instruments	Carrying amount	Future contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
				£'000s			
PFI Liabilities	16,152	17,194	3,439	3,438	6,877	3,440	0
Finance Leases	92	92	16	13	31	32	0
Loans from Secretary of State	62,173	62,173	5,558	5,559	9,117	18,587	23,352
Total	**78,417**	**79,459**	**9,013**	**9,010**	**16,025**	**22,059**	**23,352**

Non derivative financial instruments	Fair value	Fair value of contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
				£'000s			
PFI Liabilities	15,865	15,865	3,358	3,278	6,250	2,979	0
Finance Leases	88	88	15	13	30	30	0
Loans from Secretary of State	62,173	62,173	5,558	5,559	9,117	18,587	23,352
Total	**78,126**	**78,126**	**8,931**	**8,850**	**15,397**	**21,596**	**23,352**

31 March 2012:

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

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

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

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

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

	Carrying amount 2013 £'000s	2012 £'000s
Fixed rate instruments		
PFI finance lease liability	**(16,152)**	(22,080)
Finance lease liability	**(92)**	(0)
Loans from DfT	**(62,173)**	(76,102)
Variable rate instruments		
Interest bearing bank accounts	**62,379**	51,634

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

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

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

A change of 0.5% in interest rates at the reporting date would have increased/(decreased) the surplus or deficit for the year by the amounts shown below. The analysis is performed on the same basis as for 2011/12.

	Surplus or deficit : 0.5% increase/(decrease) £'000s	£'000s
31 March 2013	312	(312)
31 March 2012	258	(258)

- **Foreign exchange rates**

VOSA has negligible exposure to foreign currency risk arising from activities undertaken within the European Union. What risk exists is managed by holding a Euro currency bank account with the Government Banking Service.

18) Loans from the Secretary of State

Loans issued prior to 1 April 2003 were issued to the VI Trading Fund and these loans were transferred into VOSA. Loans issued after this date have been issued to the VOSA Trading Fund.

	Long Term Repayment Due:	
Loans outstanding at 31 March 2013	**Within one year – included in Current Liabilities £'000**	**After one year - included in Taxpayers' Equity £'000**
Replacement Vesting Loan issued in 2006/07		
• 20 year repayment loan at 4.55% interest	467	5,840
Loan issued in 1996/97		
• 20 year repayment at 8.25% interest	61	155
Loan issued in 2003/04		
• 15 year repayment at 4.35% interest	581	2,614
Loan issued in 2003/04		
• 15 year repayment at 4.9% interest	677	3,384
Loan issued in 2004/05		
• 15 year repayment at 4.6% interest	400	2,400
Loan issued in 2005/06		
• 15 year repayment at 4.4% interest	500	3,250
Loan issued in 2005/06		
• 15 year repayment at 4.5% interest	667	4,999
Loan issued in 2006/07		
• 15 year repayment at 5.15% interest	1,167	9,917
Loan issued in 2007/08		
• 15 year repayment at 4.54% interest	1,533	14,567
Loan issued in 2008/09		
• 5 year repayment at 1.78% interest	4,000	2,000
Loans issued in 2009/10		
• 5 year repayment at 1.82% interest	891	891
• 10 year repayment at 3.0% interest	173	1,039
Total of repayable loans	**11,117**	**51,056**
Loans outstanding at 31 March 2012	**14,087**	**62,015**

19) Capital commitments

As at 31 March 2013 there were £171,000 capital commitments (31 March 2012 £1,708,000).

20) Commitments under PFI contracts

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

	31 March 2013 £'000	31 March 2012 £'000
Total obligations under PFI contracts for the following periods comprise:		
Not later than one year	**6,877**	6,877
Later than one year and not later than five years	**10,317**	17,195
Later than five years	**0**	0
Sub total	**17,194**	24,072
Less interest element	**(1,042)**	(1,992)
Total	**16,152**	22,080

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

The total amount charged to the Statement of Comprehensive Income in respect of the service element of the PFI contract was £22,020,000 (2011/12 £22,143,000). The minimum payments to which the Agency is committed as at the 31 March 2013, analysed by the period during which the payment will be made, are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Committed minimum payments:		
Not later than one year	**19,557**	18,477
Later than one year and not later than five years	**29,336**	40,343
Later than five years	**0**	0
Total	**48,893**	58,820

22) Other commitments

As at 31 March 2013 VOSA had commitments under operating leases as follows:

	31 March 2013		31 March 2012	
	Land and Buildings £'000	Other £'000	Land and Buildings (Restated) £'000	Other £'000
Payment date:				
Not later than one year	**1,661**	**9,395**	2,781	9,427
Later than one year and not later than five years	**3,500**	**6,910**	5,897	15,897
Later than five years	**14,910**	**0**	17,035	0
Total	**20,071**	**16,305**	25,713	25,324

The other commitments balance for 31 March 2012 has been restated after a detailed review of lease lives. This has increased the commitment at that time by £10,789,000 (previously disclosed £13,924,000)

23) Contingent liabilities

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

24) Losses and Special Payments

There were no losses or special payments made in either 2012/13 or 2011/12.

25) Related party disclosures

DfT is regarded as a related party. During the year, VOSA has had various transactions with the Department and with other entities for which the Department is regarded as the parent Department, namely Driving Standards Agency and Driver and Vehicle Licensing Agency.

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

Included in Note 4 are the costs of the Traffic Commissioners. Costs relate to their salaries, travel and subsistence and the use of Deputy Traffic Commissioners.

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

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

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

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

26) Prior Year Adjustments

There have been no requirements this year to apply prior year adjustments to the accounts.

27) Events after the Reporting Period

On 20 June 2013, the Minister issued a statement to the House outlining changes to the role of the Agency following the consultation on the Department's Motoring Services strategy that ran from 13 December 2012 to 7 March 2013 as part of our commitment to delivering better quality and better value services to the public and business. A new single agency will bring together all of the services that are currently provided by the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA). This will enable a single agency to deliver the same high quality service, while making it easier for customers to navigate the services offered, and will reduce the administrative burden for those individuals and businesses that currently have regular contact with both DSA and VOSA. The initial move will take place in July this year - a single Chief Executive and transitional board will oversee the two agencies, which will continue in their current form for at least the next twelve months. By that time it is expected that the work to determine the detail of the structural reorganisation will be complete.

28) Authorisation of Accounts

These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. IAS 10 requires VOSA to disclose the date on which the Accounts are authorised for issue. This is the date on which the certified Accounts are despatched by VOSA's management to the Secretary of State of the Department for Transport. The authorised date for issue is 24 June 2013.

Annex A

Treasury Minute setting VOSA's further financial objectives

Vehicle and Operator Services Agency

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

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

- **a)** to manage the funded operations so that the revenue of the fund:
  - **i)** consists principally of receipts in respect of goods or services provided in the course of the funded operations and
  - **ii)** is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account and
- **b)** to achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.

2) The trading fund for the Vehicle and Operator Services Agency was established on 1 April 2003 under the Vehicle and Operator Services Agency Trading Fund Order 2003 (SI 2003 No. 942).

3) The Secretary of State for Transport, being the responsible Minister for the purposes of section 4(1)(a) of the 1973 Act, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by the Vehicle and Operator Services Agency Trading Fund for the 5-year period from 1 April 2008 to 31 March 2013 shall be to achieve a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities [after the recognition of interest receivable, but before interest and dividends payable], expressed as a percentage of average capital employed. Capital employed shall consist of the capital (Public Dividend Capital and long-term element of loans) and reserves.

4) This minute supersedes that dated 11 March 2004.

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

(Treasury Minute dated 25 March 2008)

Trust Statement

Graduated Fixed Penalties and Deposits (GFPD)
Bus Penalties

Foreword

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The number of fixed penalties issued to UK drivers since the scheme began is nearly 22,600 and to non-UK resident drivers nearly 43,400. In all cases VOSA collects the payment on behalf of HM Treasury and receipts collected are paid to them by VOSA at regular intervals.

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

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

I certify that I have audited the financial statements which constitute the Trust Statement of the Vehicle and Operator Services Agency for the year ended 31 March 2013 under the Government Trading Funds Act 1973. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statement

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

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

Opinion on Regularity

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

Opinion on Trust Statement

In my opinion:

- the Vehicle and Operator Services Agency Trust Statement gives a true and fair view of the state of affairs of the collection of Graduated Fixed Penalties and Deposits and Bus Penalties as at 31 March 2013 and of the net revenue for the year then ended; and

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

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

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

24 June 2013

Statement of Revenue, Other Income and Expenditure for the year ended 31 March 2013

	Notes	2012/13 £'000	2011/12 £'000
Income			
Fines and Penalties	2	**2,029**	2,183
Total Income		**2,029**	2,183
Expenditure			
Credit losses	3	**(0)**	(7)
Net Revenue for the Consolidated Fund		**2,029**	2,176

The notes on pages 93 to 96 form part of the trust statement.

Statement of Financial Position as at 31 March 2013

	Notes		31 March 2013 £'000		31 March 2012 £'000
Current Assets					
Receivables	5	**22**		23	
Cash and cash equivalents	4	**468**		369	
Total current assets			**490**		392
Current payables	6		**(27)**		(27)
Assets less liabilities			**463**		365
Represented by:					
Balance on Consolidated Fund Account	7		**463**		365

The notes on pages 93 to 96 form part of the Trust Statement.

A Peoples
Chief Executive and Accounting Officer
20 June 2013

Statement of Cash Flows for the year ended 31 March 2013

	Notes	2012/13 £'000	2011/12 £'000
Net cash flow from operating activities	Notes to the cash flow b)	**2,030**	2,161
Cash paid to the Consolidated Fund	7	**(1,931)**	(2,352)
Increase /(Decrease) in cash in this period		**99**	(191)

Notes to the Cash Flow Statement

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

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

	Notes	2012/13 £'000	2011/12 £'000
Net Income for the Consolidated Fund		**2,029**	2,176
Decrease/(increase) in receivables	5	**1**	4
(Decrease)/Increase in liabilities	6	**(0)**	(19)
Net Cash Flow from operating activities		**2,030**	2,161

c) Analysis of changes in Net Funds

	Notes	2012/13 £'000	2011/12 £'000
Increase /(Decrease) in Cash in this period	4	**99**	(191)
Net Funds as at 1 April 2012		**369**	560
Net Funds as at 31 March 2013	**4**	**468**	369

The notes on pages 93 to 96 form part of the Trust Statement

Notes to the Trust Statement

1) Statement of Accounting Policies

a) Basis of Accounting

The Trust Statement is prepared in accordance with the 2012/13 Financial Reporting Manual (FReM) issued by HM Treasury and the accounts direction issued by HM Treasury under section 4(6)(a) of the Government Trading Funds Act 1973. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between VOSA and HM Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the Accounts.

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

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

b) Accounting Convention

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

c) Revenue Recognition

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

d) Receivables

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

e) Liabilities and Provisions

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

f) Contingent liabilities

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

g) Critical Accounting Judgements and Estimates

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

2) Revenue and Other Income (fines and penalties)

	2012/13 £'000	2011/12 £'000
Offences in:		
2011/12		
Fixed Penalties		2,142
Bus Penalties		41
Total Penalties		2,183
2012/13		
Fixed Penalties	**1,808**	
Bus Penalties	**221**	
Total Penalties	**2,029**	
Total	**2,029**	2,183

There are no other sources of income.

3) Expenditure

	2012/13 £'000	2011/12 £'000
Cash lost in transit	**0**	7
Total	**0**	7

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

4) Cash and Cash Equivalents

	31 March 2013 £'000	31 March 2012 £'000
Balance as at 1 April 2012	**369**	560
Net change in cash and cash equivalents	**99**	(191)
Balance as at 31 March 2013	**468**	369

The distribution of the balances stated above were:

	31 March 2013 £'000	31 March 2012 £'000
Government Banking Service	**431**	350
Commercial bank account	**0**	0
Cash in transit	**37**	19
Total	**468**	369

5) Receivables

	31 March 2013 £'000	31 March 2012 £'000
Fixed penalties issued in March	**22**	23
Balance as at 31 March 2013	**22**	23

A driver with a valid UK address has 28 days to make a payment for a fixed penalty offence. The Agency has recognised the above value where payment had not been received as at 31 March 2013.

6) Payables, accrued income liabilities and deferred income

	£'000				£'000
	31 March 2013				31 March 2012
	Payables	Accrued Income Liabilities	Deferred Income	Total	Total
Court Deposits	**14**	**0**	**0**	**14**	14
Refunds Due (returned cheques)	**13**	**0**	**0**	**13**	12
Unallocated Receipts	**0**	**0**	**0**	**0**	1
Total	**27**	**0**	**0**	**27**	27

Liabilities are amounts recorded in the Statement of Financial Position as at 31 March 2013 and where payment is expected to be made in a future period. Liability balances have been recognised for Court Deposits payable to HM Courts and Tribunals Service and for refunds payable.

7) Balance on the Consolidated Fund Account

	31 March 2013 £'000	31 March 2012 £'000
Balance on Consolidated Fund Account as at 1 April 2012	**365**	541
Net revenue for the Consolidated Fund	**2,029**	2,176
Less amounts paid to the Consolidated Fund	**(1,931)**	(2,352)
Balance as at 31 March 2013	**463**	365

8) Related party disclosures

VOSA is an Executive Agency for the Department for Transport.

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

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

Court Deposits are held in a designated non-interest bearing account until such time that VOSA is notified by the court of their decision. If the defendant is found guilty then VOSA makes a payment to the appropriate court. Where the defendant is found not guilty of the offence the deposit is refunded. At the 31 March 2013 the amounts held in relation to court payments totalled £14,000 whilst the amounts due to be refunded was £12,000 (31 March 2012 £15,000 and £11,000).

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

1. This direction applies to those Trading Funds listed in the Appendix 2 to Annex H. (DAO GEN 04/12 17 December 2012)

2. The Trading Fund shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2013 for the revenue and other income, as directed by HM Treasury, collected by the Trading Fund as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2012/13.

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

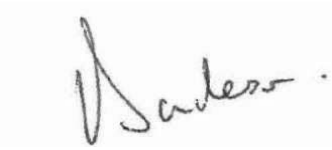
4. The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

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

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

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

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



Karen Sanderson
Deputy Director, Government Financial Reporting
Her Majesty’s Treasury
17 December 2012

Glossary

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

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