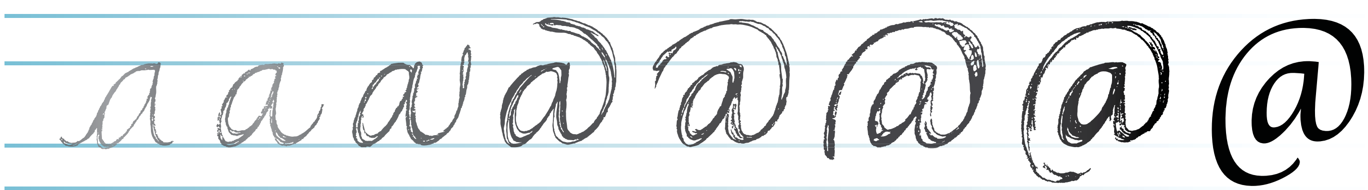
Driver and Vehicle Licensing Agency

DVLA Annual Report & Accounts 2007–08



An executive agency of the Department for Transport

The Agency has changed dramatically over the last ten years from being a paper-based factory towards an increasingly digital way of transacting with customers and partners.

Driver and Vehicle Licensing Agency

Annual Report and Accounts 2007–08

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

Ordered by the House of Commons to be printed 21 July 2008

HC920 London:
The Stationery Office **£25.75**

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ISBN:978 010295714 3

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Chief Executives' Foreword

Clive Bennett handed over the baton to me as Chief Executive in December 2007 and I inherited an Agency that had achieved very significant changes and improvements in its internal capabilities and services to customers during Clive's seven year tenure in post. In my first Annual Report & Accounts, I am pleased to be able to report a positive level of continuing success for the Agency for 2007–08. This is especially pleasing because the year has seen significant challenges, both in terms of maintaining high standards of customer service and the pressures of a continuing programme of change and development.

The end of March 2008 saw the culmination of the Gershon Review four year targets set for the Agency. During the year the Agency continued to process increasing transaction volumes and absorb new work arising from legislation, but also saw the achievement of its headcount and efficiency targets for the entire Gershon Review period. In addition, the latest and most robust Department for Transport (DfT) traffic survey to date saw the Agency delivering a 1.1% road tax evasion rate in traffic, calculated in financial terms as around £79m in lost receipts for HM Treasury. Whilst these figures represent a significant improvement on our previous expectations, the more robust way data was collected and checked meant that this estimate of evasion cannot be compared with earlier years.

The Agency met 15 of its 18 customer service targets, narrowly missing the remaining three. The quality and choice of services available to customers continues to improve, with further electronic services being introduced and the Agency winning awards for the quality of the services it delivers.

During the year, we replaced the hardware underpinning our vehicles systems and introduced new production facilities for our driving licences, achieved with no adverse impact upon day-to-day customer service. These were major projects and represent significant achievements in themselves. However, not all went smoothly and, in order to accommodate these major developments, we had to delay the introduction of other technical changes and are reconsidering how our previous proposals for vehicles systems developments should be delivered in future. We have been working through our development proposals and reviewing our priorities to ensure that we deliver our key projects to plan. The extent of the work we have to undertake on our vehicles systems to deliver the recent budget changes announced by the Chancellor has made this evaluation particularly necessary.

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The quality and choice of services available to customers continues to improve, with further electronic services being introduced...

In the meantime, we have made progress with our programmes of accommodation improvement and staff development. Thanks are due to Agency staff who have continued to deliver good service while at the same time accommodating changes to their working environment and business processes.

The challenges for us over the coming year is to refine and take full advantage of the new electronic services now becoming operational and to become more productive and cost effective. We have a changing management team that is enthusiastic to meet these current challenges, whilst at the same time continuing to prepare the Agency for the future.

N.C. Shanahan

Noel Shanahan
Chief Executive

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Highlights for the Year

Operational Results

- Processed over **95m** Vehicle and **17.5m** Driver transactions.
- Met or exceeded **five** out of eight Secretary of State targets.
- Met **15** out of **18** customer service targets.

Compliance & Accuracy

Vehicle Excise Duty Collection and Evasion

A national roadside evasion survey conducted in June 2007 captured **1.7m** vehicle sightings. Evasion on the road is calculated to be no more than 1.1%, representing **£79m** lost revenue. This can be compared to the £5,269m revenue actually collected, a **£285m** increase from the previous year.

Vehicles System Replatforming

During 2007–08, the hardware supporting the core Vehicle Register was replaced and updated, whilst leaving the application software unchanged. This was carried out without disruption to customer services.

New Driving Licence Cards

New highly secure polycarbonate driving licences were introduced during the year, produced in our new facilities utilising the latest laser engraving technology.

Customer Service

Online access

Since June 2007, four new drivers transactions were launched on the Directgov website, providing customers with the additional online transactions. To date, over **800,000** customers have used this service.

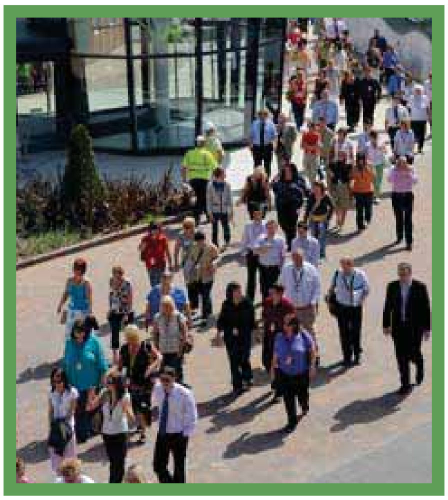
Electronic Vehicle Licensing

During 2007–08, over **13m** customers re-licensed or completed a Statutory Off Road Notification (SORN) transaction online. This represented **30%** of total vehicle licensing transactions during 2007–08.

Customer Satisfaction

The DVLA Customer Satisfaction Survey showed **93%** of customers were either satisfied or very satisfied with the overall service provided. This was 2% better than the 2006–07 survey.

Efficiency



Gershon Review Targets

DVLA was set targets to reduce its workforce by a net 500 (7.5%) and to deliver efficiency gains amounting to £50m over the 4 years to March 2008. The Agency more than achieved the targets, reducing Full Time Equivalents (FTE) headcount by 566 whilst also absorbing an additional 547 FTE workload arising from increasing transaction volumes and new workloads. It reduced costs by **£50.2m** compared to the initial 2004 benchmark.

Shared Services

In April 2007, the new DfT Shared Services Centre was established and provided live services to DVLA and the Driving Standards Agency (DSA). DfT central joined the Shared Services in April 2008.

Andrew Rhodes (DVLA) pictured left, receiving the Orange Best Use of Technology in Business Award (Wales & West Country).

Awards

Electronic Vehicle Licensing

In July 2007, our Electronic Vehicle Licensing (EVL) service was awarded the Orange Best Use of Technology in Business Award (Wales & West Country) at the National Business Awards.

DVLA was named as Runner Up in the category of Central e-Government Excellence: Take-up & Usage Growth at the 2007 e-Government Awards.

DVLA Contact Centre

In September 2007, the Contact Centre gained accreditation to the Customer Contact Association Global Standard for both the Contact Centre and their Management Training programme entitled 'Momentum' making them the first Contact Centre to achieve both accreditation awards simultaneously.

The Contact Centre also won the CCF European Contact Centre Award for Best Improvement Strategy.

In February 2008, the Contact Centre won the Welsh Contact Centre Forum (WCCF) Award 2007 for 'People Development'.

Things we could have done better

The Agency missed 3 out of 8 Secretary of State Targets and 3 out of our 18 service delivery targets to customers (see pages 16–18).

Delivering Services to the Customer

Complex medical cases

The Agency missed the target by less than 1%. New processes have been put in place to ensure that turnaround times are improved.

Calls routed out of voice

The Agency missed its target to answer 82% of calls routed out of the automated voice system within 30 seconds. Actual performance was 68%, with the average time for answering calls 56 seconds. For 2008–09, in order to hit this target and also improve customer service we are focussing heavily on reducing call volumes via analysis of why customers call and then removing the need for them to call e.g. process and information improvements.

Customer complaints

A major review of the way we handle customer complaints has been carried out. Rather than increasing resources to despatch interim replies to keep within performance standards, we provide a substantive response at first contact. We have sharpened our focus on learning and applying lessons from complaints to improve service for future customers and thereby reduce complaints.

Increasing Customer Choice

Delay of online DVLA Personalised Registrations

The planned new service channel for purchasing a DVLA Personalised Registration number (Cherished Marks) was delayed to allow implementation and more thorough testing of the replacement hardware that underpins the whole vehicles systems. The service launch has now been rescheduled for September 2008. As a result of this rescheduling, release of enhancements to the Automatic First Registration & Licensing (AFRL) system to deliver new services to dealers, has been re-scheduled for November 2008.

Tracking Vehicles through the Trade & Electronic Licensing for Fleets

The Agency reconsidered and suspended two vehicles based projects during the year, pending a wider review of the systems strategy for vehicles as a whole. Tracking Vehicles Through The Trade (TV3T) and Electronic Licensing for Fleets (ELF) had been planned and discussed with motoring organisations for some time. The Agency is looking afresh at the vehicle licensing process and at how we may be able to work closer with the motor industry to deliver the functions and benefits in a different way.

Efficiency and Internal Processes

Sick Absence

The average sick absence for Agency staff over the whole year was 12 working days. The Agency therefore missed its target of 11.2 days. Whilst this is disappointing, early figures from 2008–09 suggest an improving trend.

The Agency is developing a strategy which makes the links between tackling sickness absence and promoting the health and wellbeing of staff. We are also working with our Occupational Health provider to develop a more proactive approach to managing attendance.

Public Sector Prompt Payment

DVLA, after consistently achieving its Public Sector Prompt Payment (PSPP) target of 98% payment within 30 days since its introduction, missed the target for 2007–08. The move of our transactions into the new Shared Service Centre disrupted our processes and purchase invoice workflows in a way that took several months to correct and improve. By March 2008, DVLA was again operating in excess of 93% compliance and is optimistic that 2008–09 will see the Agency exceeding this target once again.

Data Security

The Agency reported two breaches of data security for 2007–08. Although DVLA is not aware of loss or damage arising from these breaches, the Agency has incorporated very significant changes in its operating procedures and processes to prevent such events recurring (see the Statement on Internal Control in Section 4 for details).

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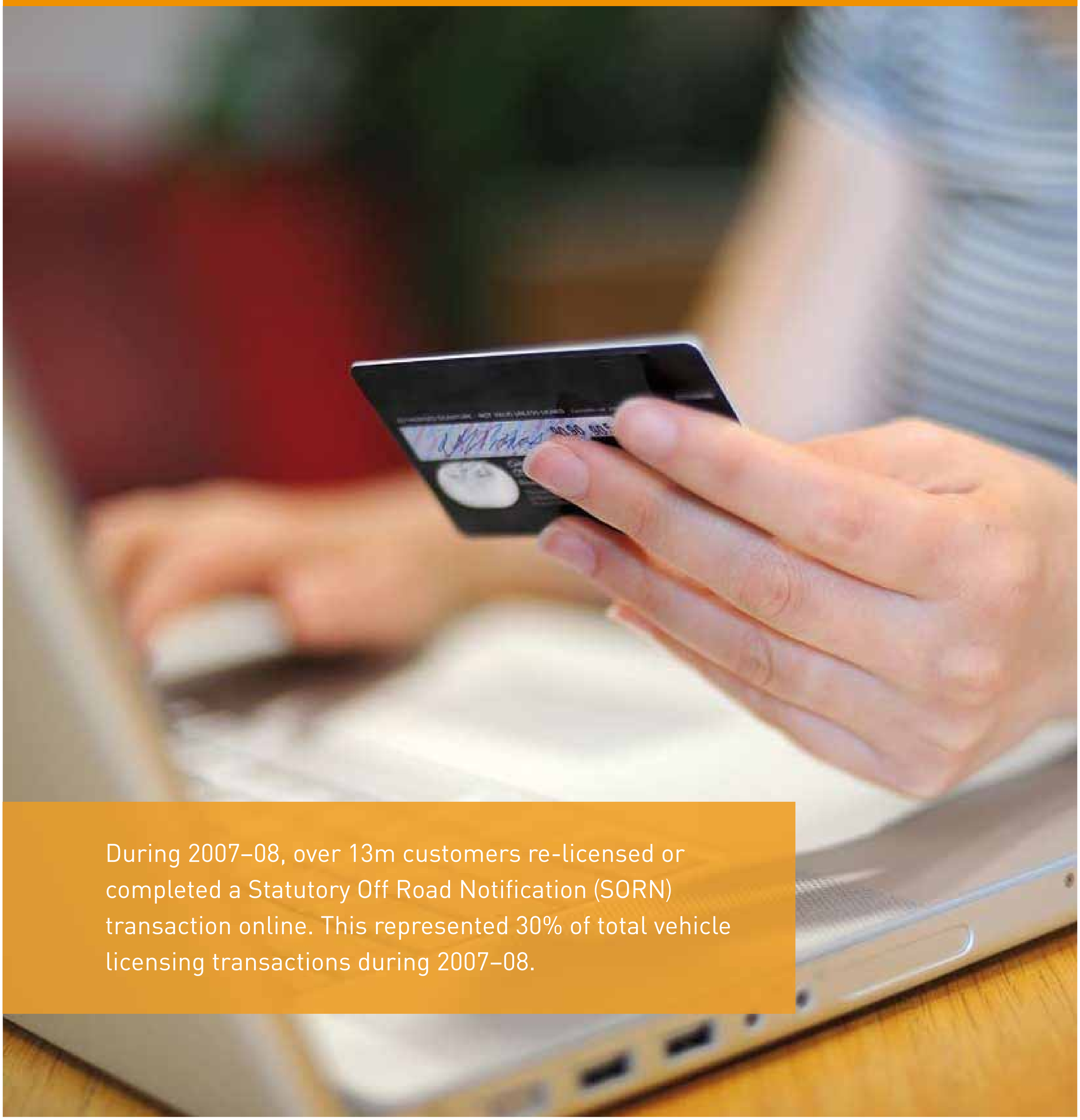
01 Directors' Report



During 2007–08, over 13m customers re-licensed or completed a Statutory Off Road Notification (SORN) transaction online. This represented 30% of total vehicle licensing transactions during 2007–08.

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Introduction

Background

DVLA is an Executive Agency of the Department for Transport (DfT) and is the largest agency within the Safety, Service Delivery and Logistics (SSDL) Directorate. The Agency has been operating as a Trading Fund since April 2004, with a turnover of £679m and operating surplus of £20.5m in 2007–08.

DVLA main headquarters is located in Swansea with a network of 39 local offices across the country. The Agency, including the DfT Shared Service Centre based within DVLA, employed 6,166 (5,916 excluding Shared Services staff) full-time equivalents on 31 March 2008. Of the total staff, 4,710 are employed in Swansea.

During 2007–08, the Agency completed over 95m vehicle transactions and over 17.5m driver transactions. Our Customer Contact Centre handled over 17.3m telephone calls from the public. In addition, the Agency dealt with over 11m enquiries from the police.

DVLA's Personalised Registrations scheme sold 245,418 registration numbers through telesales and auction, collecting £87m and passing £72.5m net receipts to HM Treasury.

Our vision is to be:

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

Our key purpose is to:

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

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

By fulfilling our core purpose, we contribute to five Strategic Outcomes:

- Improved road safety
- Reduced vehicle and other crime and anti-social behaviour
- Improved sustainability in the environment
- Vehicle Excise Duty (road tax) collection
- Improved customer perceptions of public services.

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DVLA within the DfT Safety, Service Delivery and Logistics Group

Driver and Vehicle Licensing Agency

Driver and Vehicle Licensing Agency (DVLA)

Responsibilities and activities include:

- Maintaining records of licensed drivers and registered vehicles.
- Issuing licences to drivers and the maintenance of vehicle driving entitlements.
- Maintaining records of driver endorsements, disqualification and medical conditions.
- Issuing registration documents to vehicle keepers.
- Collecting and enforcing Vehicle Excise Duty (VED).
- Working in partnership with the police and intelligence authorities in dealing with vehicle related crime.
- Registering and issuing Tachograph cards.
- Issuing vehicle registration marks.
- Selling attractive vehicle registration marks.
- Selling anonymised data.
- Hosting a Finance, HR, Payroll and Procurement Shared Services for DfT and all its agencies.
- Producing secure cards and smartcards for other organisations in Government as a Shared Service.

Vehicle & Operator Services Agency

Vehicle and Operator Services Agency (VOSA)

Responsibilities and activities include:

- Operator licensing and bus registration services.
- Annual testing of heavy goods vehicles and public service vehicles.
- Supervising the MOT scheme.
- Targeted and random checks of vehicle roadworthiness and compliance with drivers' hours and operator licensing.
- Offering advice and guidance to help customers comply.
- Accident investigations.

Safety, Service, Delivery & Logistics (SSDL) Directorate Transformation, Licensing, Logistics and Sponsorship (TLLS)

Responsibilities and activities include:

- Developing strategies for the Group as a whole and ensuring alignment between the SSDL Group's strategic direction and the broader policies and priorities of DfT.
- Providing the UK lead for driver and vehicle licensing, vehicle roadworthiness and motor insurance.
- Delivering better logistics networks and supply chains including development of logistics as across-cutting theme.
- Leading DfT work on service transformation as a cross-cutting theme.
- Proving sponsorship of the Group's Agencies and Resource Management and Planning Team support to the central directorates.
- Supporting the Director General and the Group as a whole, particularly in dealings with other Government departments.

Road and Vehicle Safety and Standards Directorate (RVSS)

Responsibilities and activities include:

- Bringing together three linked areas – road safety, transport technology & safety standards and traffic management. It makes a major contribution to the delivery of a safe and efficient road environment for individuals and businesses.
- Leading DfT work on safety as a cross cutting theme and has particular responsibility for delivering targets to reduce the number of people killed and seriously injured on the roads.

DRIVING STANDARDS AGENCY
SAFE DRIVING FOR LIFE

Driving Standards Agency (DSA)

Responsibilities and activities include:

- Setting standards for drivers, riders and trainers.
- Driver education and learning resources.
- Registering and supervising quality-assured instructors.
- Effective and efficient assessments conducted as computer-based and practical tests.

VEHICLE CERTIFICATION AGENCY

Vehicle Certification Agency (VCA)

Responsibilities and activities include:

- Ensuring that vehicles and vehicle parts have been designed and constructed to meet internationally agreed standards of safety and environmental protection and crime prevention.
- Publishing data on emissions, fuel consumption and noise for models of vehicles.

GOVERNMENT CAR AND DESPATCH AGENCY

Government Car Despatch Agency (GCDA)

Responsibilities and activities include:

- Meeting Government requirements and customers' needs for the provision of secure cars, drivers and mail services.
- To provide a value for money service and recover its costs.
- To promote best practice in driving standards and road safety, security and in the environmental

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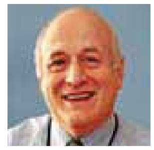
DVLA Directors

Noel Shanahan
Chief
Executive

Noel Shanahan, previously Customer Services Director, was appointed as the new Chief Executive after a public appointment process, in December 2007.



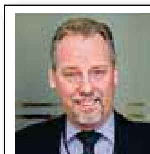
Clive Bennet
Chief
Executive

Clive Bennett retired as Chief Executive in December 2007 after being in post since January 2001.

Simon Tse
Chief Operating
Officer

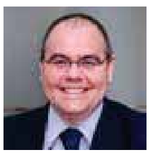
A new role of Chief Operating Officer (COO) was established and **Simon Tse** was appointed to the COO role taking up post during the 2008–09 year.

Ieuan Griffiths
Finance &
Strategy



Richard Kitchen
Policy & Internal
Communications

David Hancock
Local
Operations



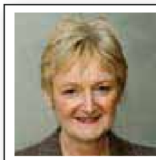
David Evans
Central
Operations

Andrew Rhodes
Customer
Services

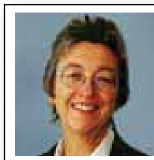
Andrew Rhodes was appointed interim Customer Services Director to carry on Noel's previous work.

Judith Smith
HR &
Estates

Judith Smith was appointed to HR Director, taking up the post during the 2008–09 year.

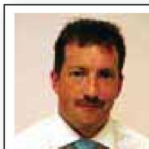


Avril Beynon
HR &
Estates



Sharon Baker
PACT

Recruitment was undertaken during the year for the posts of HR Director and Programme Director due to the retirements of **Avril Beynon** and **Sharon Baker.**



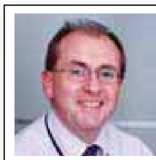
Leigh Allen
Programme
Director

Leigh Allen was appointed interim Programme Director, taking up the post during the 2008–09 year.

IBM & DfT

Jeremy Forshew
IBM Director of
Transformation

Jeremy Forshew, the IBM Director, was previously a member of the DVLA EB, but this role has been rescoped during the year and IBM no longer play a direct EB role within DVLA management.



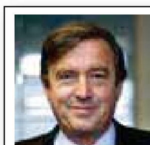
Robert Duncan
DfT Shared
Services Director

Robert Duncan was appointed as Shared Services Centre Director to head up the new DfT Shared Services provided from Swansea, commencing in June 2007. In January 2008, Robert's reporting line was changed and he ceased to be a member of the DVLA EB, reporting instead to the DfT Director of Resources through the (Acting) DfT Shared Services Director. Robert replaced Kate O'Connor, who left the Agency in July 2007.

Non-Executive

Elizabeth
Bertoya

Baljit
Dhillion



John
Burdett

None of the Directors held any company directorships or other significant interests which would conflict with their management responsibilities.

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Partnership Working

The Agency is making significant progress in updating its infrastructure and estates by working in partnership with its PACT partners, IBM and Fujitsu and the Private Finance Initiative contract with Land Securities Trillium (LST).

Both partnerships are providing the Agency with the flexibility to accelerate and deliver its transformation programme.

DVLA's contract with the Post Office® collects £3.4bn in VED each year for the Agency. The Post Office® plays a key role in providing customers with a face to face service to relicence their vehicles or declare SORN at over 4,600 branches across Great Britain. In addition, they offer a Premium Checking Service at over 740 branches for customers wishing to apply for their first photocard driving licence. They also provide information to DVLA customers by issuing our forms and leaflets through 14,000 branches.

During 2007–08, our wheelclamping contract with National Car Parks (NCP) has led to over 116,000 unlicensed vehicles being clamped/impounded. The contract has provided us with an increased capability and makes our enforcement activities more effective.

The Post Office® plays a key role in providing customers with a face to face service to re-licence their vehicles or declare SORN...

Commitment to the Environment

The Agency now has Sustainable Operations on the Government Estate (SOGE) targets embedded as part of its planning targets. Key Performance Indicators (KPIs) are in place to embed Sustainable Development (SD) thinking into the decision making process.

SD related policies, in particular relating to green transport, are being refreshed and re-issued as the Agency establishes a plan for reducing carbon dioxide (CO_2) emissions from its business travel. DVLA operate a park and ride facility with subsidised work's buses for use by the Swansea Estates encouraging staff to car share or use alternative transport.

The Agency received its third ISO14001 certificate for its Environmental Management System (EMS) for the Swansea Estates and is continuing to extend this to the Local Office Network.

Use of green electricity has increased and the amount of paper used has reduced, thereby reducing the amount of waste produced. All freehold new build projects at the Swansea HQ site have achieved a Building Research Establishment's Environmental Assessment Method (BREEAM) excellent standard and a site wide energy solution is being implemented which will double the Combined Heat and Power (CHP) capacity by June 2008.

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If all drivers in the UK followed the smarter driving tips, CO_2 emissions from cars could be reduced by **8%** or over **5.5m** tonnes of CO_2 a year, saving motorists over **£2bn** a year in fuel costs.

By August 2007, our Electronic Vehicle Licensing service is estimated to have saved 13,500 tonnes of CO_2 from 48m miles of journeys to the Post Office® or local offices to complete an over the counter transaction, this is equivalent to 217 journeys to the moon.

DVLA and Global Action Plan are keen to encourage motorists to keep up the good environmental work by adopting a few other simple tips for increasing fuel efficiency, as promoted by the DfT's ACT ON CO_2 campaign. These 'smarter driving' tips include:

- Maintain correct tyre pressures.
- Do not carry unnecessary weight in the car, e.g. remove roof racks when not required.
- Do not over rev the engine – change up a gear a little earlier when you can.

If all drivers in the UK followed the smarter driving tips, CO_2 emissions from cars could be reduced by 8% or over 5.5m tonnes of CO_2 a year, saving motorists over £2bn a year in fuel costs.

During 2007–08, a campaign was launched to raise staff awareness about environmental issues such as double-sided printing, saving energy and reviewing individual domestic carbon footprint.

For further information about DVLA's electronic car tax system, please visit www.direct.gov.uk/motoring. For information about driving smarter to save on CO_2 emissions, visit www.dft.gov.uk/actonco2

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Performance against Targets

Secretary of State Targets 2007–08

	Target 2007–08	2007–2008	2006–07	Longer Term
1.	*Customer Satisfaction for Service Delivery* Maintain or improve customer satisfaction at a rate of 90%.	**Achieved** 93%	91%	SSDL Customer Satisfaction Survey to be issued.
2.	*Delivering Services to Customers* Maintain or improve on the standard of services to the customer. Achieve at least 16 of the 18 major service delivery measures on page 18.	**Partly Achieved** 15 out of 18 met.	12 out of 18 met.	Move to measures that more closely reflect customer experience and expectation.
3.	*Increasing Customer Choice* Deliver customer choice for operational services through increasing the number of electronic inbound services available.			
	1. Maintain volume of existing inbound services **available** that could be completed electronically, at 64% of the total inbound service volume by March 2008.	**Achieved** 1. The level delivered to March 2008 was 72.78%.	The level delivered to March 2007 was 36.60%.	Make continuous improvement and streamline/upgrade internal operations and customer interface as experience of the systems grows to maximise channel shift.
	2. Deliver the facility for customers to purchase personalised registration number online.	**Not Achieved** 2. System release delayed – rescheduled for September 2008.	N/A	
	3. Complete the system build enabling vehicles to be tracked through the motor trade (TV3T).	**Not Achieved** 3. The approach to this system is being reviewed.	N/A	Alternative approaches are being considered for TV3T, as part of a wider review of vehicles systems strategy and how best DVLA interacts with the motor industry.
	4. Deliver the facility for driving licence holders to electronically: - Renew driving licences at 70 - Notify a change of address - Request duplicate licence - Request a new-style licence	**Achieved** 4. The 4 transactions are now operational. The supporting processes are being streamlined prior to major formal launch.	N/A	
4.	*Gershon Efficiency:* Deliver the benefits and efficiency gains agreed above the 2004 baseline. 1. Cost efficiencies of £50m compared to the 2004 baseline. 2. Staff (FTEs) reduction by 500 net to meet a target of 6,166. 3. Additional £5m net income from DVLA Personalised Registrations and income from cherished transfers. 4. Increase VED collected to a level of at least £70m above the 2002–03 Roadside Survey result.	**Achieved** 1. £50.2m delivered. **Achieved** 2. 566 net delivered. **Achieved** 3. £10.2m delivered. **Achieved/ Inconclusive*** 4. See Note opposite.	DVLA reported against interim internal targets that were met for the first 3 targets, but with the VED target not delivered on the basis of the 2006 DfT Roadside Survey results.	Over the period 2008–11 deliver a total of £80.7m efficiency savings compared to the 2008 baseline.

5.	*Channel Migration* To deliver a programme of e-service capability across the consumer commercial and business sectors whereby the volume of inbound services delivered electronically is at least 30% of the inbound volume available electronically by March 2008.	**Achieved** 47.36%	36.60%	Make continuous improvement.
6.	*Road Safety and Crime Reduction* Accurate Records Vehicles Register: Maintain 97.5% of current vehicle keepers as the level to be successfully traced from the record.	**Not Achieved** In range 94.5% to 99.2% (mid range point of 96.9%).	97.5%	Take steps to keep accuracy above 95%.
	Drivers & Vehicles Registers: • To achieve complete accuracy in at least 97.5% of vehicle registration documents input.	**Achieved** 98.05%	N/A	
	• To achieve complete accuracy in at least 97% of driving applications input.	**Achieved** 98.16%	N/A	
7.	*Collection of Tax* Enforcement Reduce VED evasion to 2.5% by December 2007. This target is subject to review.	**Achieved/ Inconclusive*** See Note below.	See Note below.	Increase the direct revenue generated by VED enforcement action by a total £100m over the period 2008–11.
8.	*Sustainable Environment* Continue to work with Transport for London in the delivery of the Mayor's Air Quality Strategy.	**Achieved** The work required from DVLA was completed, delivering the technical changes necessary for the provision of data to TfL. This has allowed them to launch the LLEZ enquiry service and enabled them to run the scheme from February 2008.	N/A	Work towards meeting the Sustainable Operations on the Government Estate targets by: • Reducing carbon emissions from offices by 12.5% by 2010–11, relative to 2002–03 levels. • Reducing carbon emissions from road vehicles used for Government administrative operations by 15% by 2010–11, relative to 2005–2006 levels.

*** Note to Targets table**

The estimated financial level of VED lost through evasion in 2007 is 1.5%, calculated to amount to £79m. This compares to an initially declared figure of £206m as a starting point (baseline). However, improvements in the way data is collected and processed in the annual survey means that the figure cannot be compared accurately to previous years. Although the VED targets would appear to be achieved, the results are in fact inconclusive. However, the 2007 figure does represent a very low level of evasion, highlighting the success of DVLA's compliance and enforcement measure. Further detail is provided on the handling of the VED targets and our ability to conclude on the original Gershon Review efficiency targets in Section 2 – the Management Commentary.

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Measures to support the Timelines of Service Delivery to Customers

	Performance 2007–2008	Target 2007–08	Performance 2006–07
Driving Licences			
To deliver a 1st driving licence within 8 working days	98.0%	98.0%	84.9%
To deliver a vocational licence within 8 working days	99.8%	98%	97.9%
To deliver an ordinary licence within 10 working days	99.6%	97%	93.7%
Medical Investigations			
To conclude a simple case within 15 working days	92.2%	88%	88.3%
To conclude a complex case (those that require further medical investigation) within 90 working days	84.3%	85%	87.2%
Vehicle Registration Document			
To deliver a first registration document, excluding cherished transfers, within 14 working days	99.8%	95%	99.7%
To deliver a change on a registration certificate within 14 working days	98.2%	95%	98.6%
To deliver a registration document from an application (notifying changes to the registration certificate) within 30 working days	99.6%	95%	99.6%
Vehicle Excise Duty Refunds			
To deliver a refund due within 30 working days	98.9%	95%	99.1%
Customer Service			
To respond to calls demand	97.6%	95%	99.0%
To answer calls routed out of VOICE within 30 seconds	68.2%	82%	72.4%
To answer e-mails within 3 working days	99.2%	95%	98.8%
Achieve an average Local Office queuing time	13:54	15 minutes	14.52
To deliver a cherished transfer within 7 working days	95.1%	95%	97.4%
Customer Complaints			
To acknowledge a complaint within 1 working day	100.0%	98%	100%
To maintain or improve on last year's performance, which is measured as % of complaints provided with a substantive response within 10 working days	96.2%	98.4%	98.4%
MP Correspondence			
To acknowledge correspondence within 1 working day	100.0%	98%	100%
To maintain or improve on last year's performance, which is measured as % of complaints provided with a substantive response in 7 working days	94.4%	85.9%	94.9%

*** Notes to Measures table**

1. Measured in working days from receipt by DVLA to receipt by the customer.
2. Response times reflect complexity of complaints

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Performance against Service Outputs

Compliance

Vehicle Excise Duty (VED) Compliance

DVLA collect Vehicle Excise Duty (VED) to fund Government spending. With the support of other enforcement agencies, we enforce compliance so that vehicle keepers pay their share. In addition, enforcing VED has shown to have road safety benefits, a higher than average proportion of vehicles on which VED has not been paid is less likely to have a valid MoT certificate or insurance.

Targets

In 2007–08, DVLA had two headline compliance targets to achieve to meet Gershon Review VED targets:

- to collect **an extra £70m by bearing down on evasion.** The baseline to compare against was the DfT Roadside Survey of 2002–03 indicating a financial evasion total of £206m. The change to the Continuous Registration regime was part of this enforcement effort;
- to **bring evasion down to 2.5% or lower.**

Performance

During the year DVLA collected £5.269bn of Vehicle Excise Duty, up £285m from 2006–07, with an estimated financial evasion loss to HM Treasury of £79m. The June 2007 Roadside Survey showed an 'on the road' evasion rate of 1.1% (in traffic evasion). To take into account the assertion that unlicensed vehicles are less likely to be used on the road, the estimate of evasion for all vehicles in circulation (in stock) is increased to 1.7%.

Compared to the 2006 Roadside Survey figures these results suggest a very significant reduction in the level of evasion. However, the basis of measurement changed as a result of more robust data collection methods adopted by statisticians and that makes direct comparison impossible. The detailed figures and issues are explained in detail in the Management Commentary.

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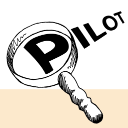
Advertising Campaigns

During 2007–08, the Agency ran a national television and local radio campaign to remind and warn motorists to licence their vehicles on time. Availability of the Electronic Vehicle Licensing option featured online and in motoring magazines. Online advertisements provided the customer with a direct link to **www.direct.gov.uk**

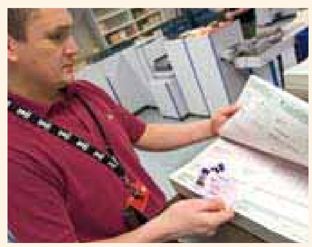
Motorcycle Chipped Number Plates



During 2007, the Agency carried out a study on the use of Electronic Vehicle Identification (EVI) specifically for motorcycles. DVLA sought views on whether electronic chips would be an acceptable and more effective way of identifying motorcycles as quickly as other vehicles on the road. The study suggested that cost of EVI would outweigh benefits. Therefore, the Agency will continue to rely on Automated Number Plate Recognition (ANPR) technology to enforce compliance unless in the future, the balance of cost and benefit changes as wider road and congestion charging are introduced.

During 2007–08, the Agency provided technical and policy expertise to the European Commission and other Member States...

Driver Licence Upgrade



From 19 June 2007, the Agency has been issuing new and more secure driving licences, based on laser engraved polycarbonate cards. Over 6m of the new cards were issued in the period to 31 March 2008. In November 2007, the new DVLA high security "Output Services" site came on stream. The two site capability for card and secure document production and despatch provides DVLA with high levels of business continuity, with the old facility being fully upgraded by November 2008.

European Fraud and Crime

During 2007–08, the Agency provided technical and policy expertise to the European Commission and other Member States, to allow for the exchange of driver licence information between all Member states. This will provide help to counter driving licence fraud across the European Community.
The proposed system will also enable member states to identify stolen vehicles and check if the vehicle presented for registration is legitimate. DVLA was linked with the other EU countries through the Tachonet network in September 2007. EC and UK enforcement bodies can now check the validity of Digital Tachograph Driver and Workshop cards.

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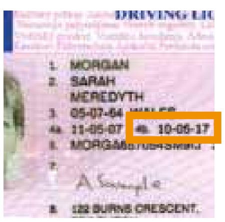
SRO Central Operations Director David Evans (front left) and TYR Project Manager Simon Lear (front right) with the TYR Project Team.



Ten Year Renewal Cycle for Photocard Driving Licences

During 2007–08, to comply with the Road Safety Act 1998, as updated by the Road Safety Act 2006, preparations were completed to renew photocard driving licences (according to the 10 year cycle prescribed) with updated photographs. This has involved process and systems changes within DVLA and ensures compliance with the 3rd EU Driver Directive. The first reminders were despatched in May 2008.

Certificate of Professional Competence

DSA and the Driver and Vehicle Agency (DVA) in Northern Ireland have the responsibility of introducing Professional Training monitoring and Certificate (card) production as part of EU legislation by September 2008. DVLA is providing support to DSA and DVA in terms of the card production aspects of this scheme and has made good progress during the year; we are together on schedule to meet the required implementation date.

Passenger Carrying Vehicles and Passenger Safety

The Agency's public consultation on proposals for improving passenger security on Passenger Carrying Vehicles is complete and we will be reporting shortly to Ministers, including the option of mandatory Criminal Records Bureau checks during application/renewal of licences. Traffic Commissioners will use these checks to decide if the applicant should be issued with a licence.

Accuracy

The 2007 survey of vehicle register accuracy showed that the vehicle keeper could be traced in 94.7% of cases spot-checked. The traceability figure is within a statistical 94.5% – 99.2% range (a mid range of 96.9%, 97.4% in 2005) and the Accuracy figure is within 83.8% – 88% range (76.3% in 2005). The Drivers side of the survey

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was abandoned as the result of an administrative handling error in our despatch department, during which up to 1,215 of the 2,500 driver detail forms were inserted into the wrong envelopes. As a result, some drivers contacted as part of this survey received details not related to them. This was widely reported in the media after a statement on the occurrence made by the Secretary of State on our behalf. (See page 9 on data security).

The 2007 survey of vehicle register accuracy showed that the vehicle keeper could be traced in 94.7% of cases spot-checked.

Police Access to Driver Details

Ten police forces already have access through the Driver Verification System (DVS), providing direct online access to the DVLA's new Drivers system (DRP).

This allows, for the first time, a fully effective means of handling driving offences and enforcing driver entitlement at the roadside, through provision not just of the entitlement record but also photographs to ensure the linkage between driving entitlement and the individual driver.

Courts Access to Driver Details

PILOT

Courts across Great Britain have similar access to the police and have concluded a series of successful pilots. Secure links are now in place to English and Welsh Courts and Police fixed penalty offices. Scottish Courts and cross European border links will be added during 2008–09 and an agreement has been reached with Her Majesty's Court Service (HMCS) to roll-out this access to all courts in England and Wales over the period to September 2008.

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Customer Service

Electronic Services

Driver Services

The five high volume driver transactions (83% of total transactions) are now available electronically through Directgov. However, a full launch with publicity has been deferred until a number of system improvements have been put in place and internal processes have been streamlined. The National Audit Office (NAO) completed a report on the First Application for Provisional transaction during the autumn. All the recommendations are being pursued.

Access of Driver Records

Preparations were completed before the end of the year to begin a pilot to access individual driver records on proof of explicit written consent. This will assist commercial organisations (e.g. car hire companies) and simplifies life for some car drivers who will no longer need to carry their driving licence.

Vehicle Services

DVLA's Electronic Vehicle Licensing (EVL) service continues to grow from strength to strength. One reason for this success is that an online or telephone application and payment takes an average of 4 minutes. Volumes hit a peak of 122,000 transactions a day in March 2008, with over 26 million customers to date.

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

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Contact Centre staff receiving the People Development Award in the Welsh Contact Centre Forum (WCCF) Awards 2007.

DVLA Contact Centre

The Contact Centre handles over 1 million enquiries a month and is one of the largest single contact centres in Government. It has achieved a number of external accreditations and awards in recognition of its service levels and standards, representing an excellent example of best practice.

DVLA Panel Research Facility

In 2007–08, the Agency carried out research and testing views on:

- Customer needs and wants
- Views on advertising campaigns
- Searching the internet to find out about or to access motoring guidance and services
- Generally how customers feel about dealing with DVLA.

DVLA Local Office customer service.

Better Regulation

DVLA has made an important contribution to DfT's Simplification Plan 2007, which is designed to facilitate the Government's commitment to achieve a 25% reduction in the administrative burden imposed on business, charities and the voluntary sector by 2010. The Agency's contribution to the target is built largely around the introduction of electronic services and, whenever possible, the provision of streamlined transactions.

During 2008–09, the Agency will ensure delivery of the measures in the current Simplification Plan, and will continue to search for further savings and other ways of simplifying our processes. Our commitment to the Government's better regulation agenda will be underpinned by effective consultation and impact assessment.

Efficiency

Organisational Change

The Agency's Organisational Change Programme (OCP) has streamlined the way the Agency functions and has provided a major element of the DVLA response to the DfT Capability Review, being fully consistent with and contributing towards the central DfT "4wards" initiative. In 2007–08, key achievements included:

...new Performance Development Review (PDR) arrangements strengthen the link between Agency and individual staff objectives.

- **Leadership Development –** initiatives started in previous years have continued to be rolled out. Coaching and mentoring schemes are ongoing, supported by formal training courses.
- **Job Families –** all staff have been grouped into one of nine job families. Each job family has clear and up-to-date accountabilities, competencies and skill sets to support development and appraisal.
- **Reward & Performance Management –** new reward and performance management arrangements have been developed and are now subject to consultation and negotiation with the union.
- **Job Design –** Job Design pilots have been completed and are becoming part of the Agency's Operational Excellence initiative, aimed at streamlining processes and enriching job content.
- **Performance Management Arrangements –** new Performance Development Review (PDR) arrangements strengthen the link between Agency and individual staff objectives. The new arrangements are supported through the SAP workforce information systems, with the relationship between appraisal and development strengthened and compliance monitored.
- **Health and Safety –** the Agency continued to provide advice and guidance to staff on health and safety with workshops for managers and training on risk assessment.

DVLA Performance Development Review.

Internal Communication and Policies

The Agency has a formal partnering agreement with the Trade Union body representing staff, meeting regularly and involving Union representatives in all major change programmes, including the Organisational changes listed on page 25. There are comprehensive ongoing communications with staff including:

- Leadership workshops
- Agency Awareness Seminars
- Manager and Team briefings (monthly)
- Internal magazines
- Internal intranet and daily updates on News@DVLA
- Comprehensive staff survey (annual)
- Directorate away-days

A 10 point Plan was introduced by Cabinet Office in November 2005, with the aim of increasing the representation of women, black and minority ethnic and disabled people at senior grades in Civil Service by 2008. The Agency has continued to review progress on targets and the Disabled Persons Officers will continue to provide advice to improve access to DVLA premises and make reasonable workplace adjustments. The Agency Diversity Action Plan lists action points from the analysis of information gathered on staff and customer

National Ban Bullying at Work Day.

equality and diversity issues. A review of the Plan's timetable of actions and deadlines has been undertaken quarterly.

During 2007–08 the Agency organised and was involved in a number of activities promoting DVLA as an equal opportunities employer.

Activities included:

- Consultation and support for Disabled staff through the activities of the Speakeasy staff support group now renamed the Ability Group by the members, as well as through the work of the Disabled Persons Officers. Managers were invited to a Mental Health training programme.

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

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- The Royal National Institute for the Deaf (RNID) undertook a 'Louder Than Words' audit to assess accessibility for deaf and hard of hearing staff and customers and we continued to work with Remploy, Access to Work and other organisations to help support and retain staff in the workplace.
- In November 2007 National Ban Bullying day was supported with event stands and information and a staff helpline was set up. Additional Harassment Contact Officers were recruited to provide information and advice for staff.
- A range of activities included the launch of a Carer's Network to help provide advice and support to staff with caring responsibilities, updating our guidance on religion and belief and advertising in external publications. The Agency is now a member of Race for Opportunity as well as Stonewall and has an active Lesbian, Gay, Bisexual and Transgender (LGBT) group.
- DVLA Diversity Staff facilitated presentations at conferences with attendance from Capita and Job Centre Plus, and communicated diversity information to DVLA managers and staff.

Information Systems Inrastructure

Vehicle Software System Replatforming

During the year, the old DVLA Vehicle System was shut down and service migrated to the new delivery platform and hardware. The system is one of the largest in Government and whilst this took 6 months longer than anticipated (due to extended testing), the achievement with no disruption for customers or external visibility of the changes was a significant one for the Agency.

Vehicles Integration with Northern Ireland

Work continued on proposals for migration of Northern Ireland Vehicles records to the DVLA database. However, the Chancellor's Budget announcements included measures that require significant changes to DVLA Vehicles systems; these changes have a major impact in systems areas critical to the NI migration. DVLA has instigated a series of urgent technical reviews and is currently in discussion with Ministers to decide on a way forward for both sets of requirements at a level of risk that is appropriate.

The system is one of the largest in Government...

Estates Refurbishment and PFI Contract

Work on the main tower block at Swansea HQ was completed in July 2007.

The Agency's two new data centres were completed in January 2008 and work is progressing on fitting these out to allow relocation of the systems infrastructure from a range of current server rooms and sites.

Refurbishment of the previous 'Output Services' facilities has commenced to the same standard as delivered by the new off-site facility. It is due to be commissioned in September 2008.

Work has progressed on a new replacement office block at the main site which will provide accommodation and staff facilities. This has also allowed DVLA to serve notice of vacating one of its offsite leasehold premises.

Local Office Systems Support

Improvements were made to efficiency and customer service. An automated checking facility takes away the need to conduct lengthy manual checks required for:

- Cherished Transfers and Sale of Mark assignments
- Retention applications and assignments
- Duplicate Vehicle Excise Licence applications.

Local Office Estates

In July 2007, Reading local office moved to become Theale local office. In August 2007, Shrewsbury local office moved to the outskirts of the town to accommodate colleagues from the Driving Standards Agency.

Preparations for relocations of the Birmingham and Edinburgh local offices have started and these are due for completion in May 2008.

Opening of Shrewsbury LO's new custom-built office.

New Fees Structures

New levels of vehicle registration and driving licence fees were introduced on 1 May 2007 following three public consultations, concluded in November 2004, July 2006 and January 2007.

During the year, a fourth public consultation on fees was undertaken as a result of further contacts with stakeholders and the structure of Driver fees was simplified significantly. The new structures provide for a single fee level for the common transactions with DVLA, all of which in customer eyes represent merely the issuing of a new driving licence. The transactions previously "free of charge" remain so and First Applications for Provisional, which involve enrolment onto the DVLA system and issuing of both Provisional Driving Licence and subsequently a Full Driving Licence, and offender related transactions, retain higher fee levels. Due to legislative complexity, these changes were implemented at two dates, 1st April 2008 and 16th May 2008.

Full reports on the public consultation results and the fee structures adopted as a result of the parliamentary approval processes are available on **www.dvla.gov.uk**

Statement as to disclosure of information to auditors

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

Noel Shanahan
Chief Executive
and Accounting Officer

14 July 2008

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02 Management Commentary

DVLA is a complex organisation, with income of £679m and £5.269bn in tax receipts. It operates within HM Treasury guidance, which includes specific rules as to how it can fund its operations and set its fees.

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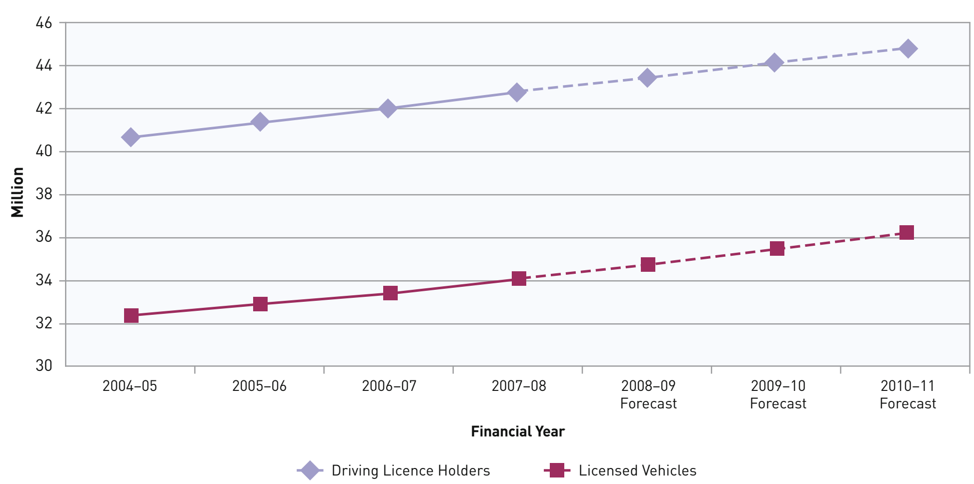
This section provides an overview of and commentary on operational and financial activity of the Agency to supplement the figures presented in the accounts. This section is split between the two sets of accounts presented in Section 4 for the business activities and the results for Vehicle Excise Duty (VED) collection.

DVLA is a complex organisation, with income of £679m and £5.269bn in tax receipts. It operates within HM Treasury guidance, which includes specific rules as to how it can fund its operations and set its fees. As both an Executive Agency and Trading Fund, DVLA has a duty to fund its statutory activities and to break even over a number of years. However, although DVLA is a full Trading Fund, it is unique in Government in that it is also monitored within its sponsor (DfT) Departmental Expenditure Limit (DEL) which imposes significant additional monetary and reporting activities.

Operating Commentary

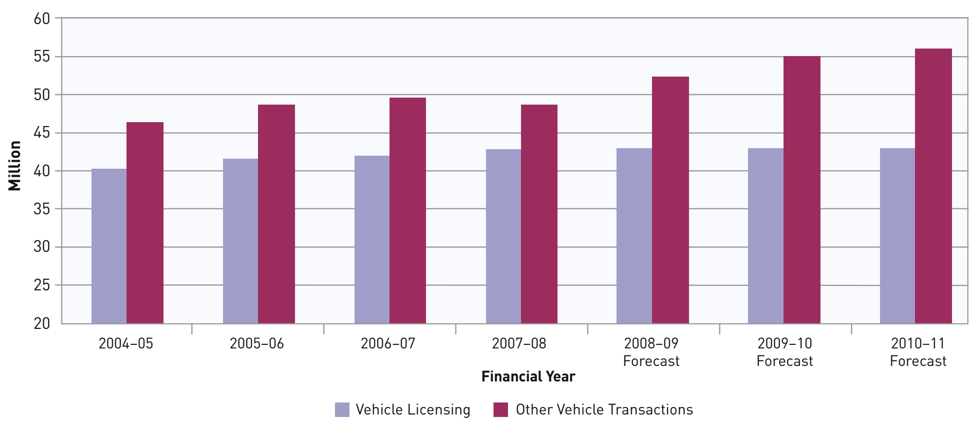
Growth in Driving Licence Holders & Licensed Vehicles 2004–05 to 2010–11



Vehicles Transactions

In 2007–08, the Agency completed over 92m vehicle transactions, the same level as 2006–07.

Vehicles Transaction Volumes 2004–05 to 2010–11



This represents an increase of approximately 4.8m on the volumes for 2004–05 and reflects the growing number of vehicles on our databases i.e. an annualised increase of some 1.8%. It seems likely that this trend will continue into the future. The largest volume transaction was vehicle licensing (VED collection) although we also handle, for example, some 5.5m changes of vehicle keeper each year and 13.1m changes of address through the vehicles database. In all there are 72 different types of vehicle transactions.

Drivers Transactions

In 2007–08 the Agency completed over 17.5m driver transactions. The 17.7m transaction total represents an increase of 1.7% on the previous year and an overall increase of 7.1% on the volumes at the start of 2004–05. The driving licence issuing transactions involving the major volumes were (millions):

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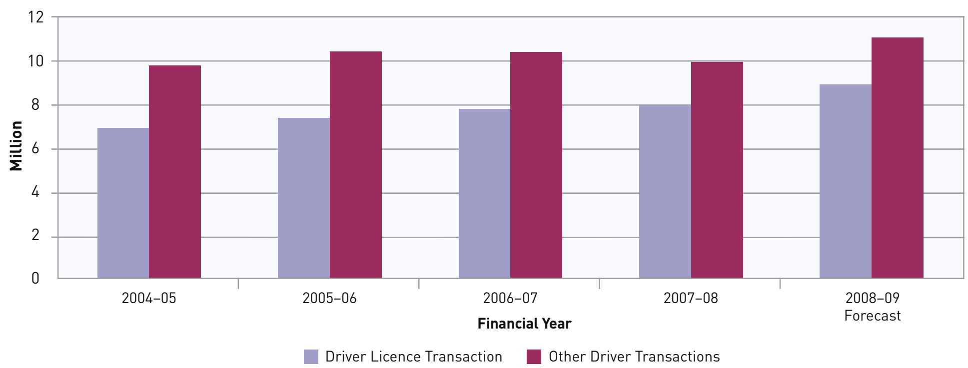
Drivers Transactions Volumes 2004–05 to 2010–11



First Application for Provisional DL*	1.05
Transfer from Provisional to Full DL	0.82
Renewal for change of address or other details*	2.89
Replacement of DL lost, stolen or damaged/destroyed*	1.40
Renewal on 3-year cycle for over–70s*	1.24
Exchange of Photocard Licence for Paper*	0.26

In all there are 54 different driver transaction streams, including medical notifications, offender related transactions and Court updates. During 2008–09, the 10–Year Renewal cycle will commence and we expect this to build to an additional (approximate) 3m transactions a year when we reach steady state in around 3 years time. During 2007–08, the Agency also processed some 0.2m transactions for smart Tachographs and we anticipate that this will increase significantly in the next years as fleet operators replace the equipment in their vehicles.

The five transactions noted* are now available online through DirectGov, although channel shift has so far been small and we have yet to actively market these or encourage take-up whilst we streamline the transactions support. The transfer from Provisional to Full DL is electronic (over 80%) as this is enabled by direct links from DSA.

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Financial and Efficiency Commentary

DVLA collects in excess of £5bn a year of VED revenue that is passed directly to the Consolidated Fund (2007–08 £5.269bn) and is kept separate from Trading Fund income covered opposite, being reported in the VED Accounts in Section 4. The same is true for the VED enforcement fine income of £47.0m, which is also surrendered directly to HM Treasury, but is reported in Note 27 of the DVLA Business Accounts, although not included in the Income & Expenditure figures as it falls outside the Trading Fund.

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

- users of our registration services through fees and charges
- DfT under Service Level Agreements for collecting and enforcing VED
- the gross income generated by Sale of Marks (SoM) and Cherished Transfers to cover costs with the surpluses surrendered to the Consolidated Fund as "Extra Receipts"
- charges to other public sector organisations for using our services or facilities.

Income

The total income for the year (£679m) shows an increase of some £66m from that of the previous year (£613m) and was £38.3m ahead of the projected income forecast in the Business Plan on a similar basis. However, £17.7m of the income for the year relates to DfT reimbursement of Shared Service Centre development costs and was not included in the original Business Plan. Therefore, there was a net increase of £20.6m compared to the Business Plan. The increases from the prior year result from a number of different factors, increase in fee bearing transaction volumes, commencement of smart tachograph income, savings stamp recovery and Service Level Agreements (SLA) income increase for VED activities.

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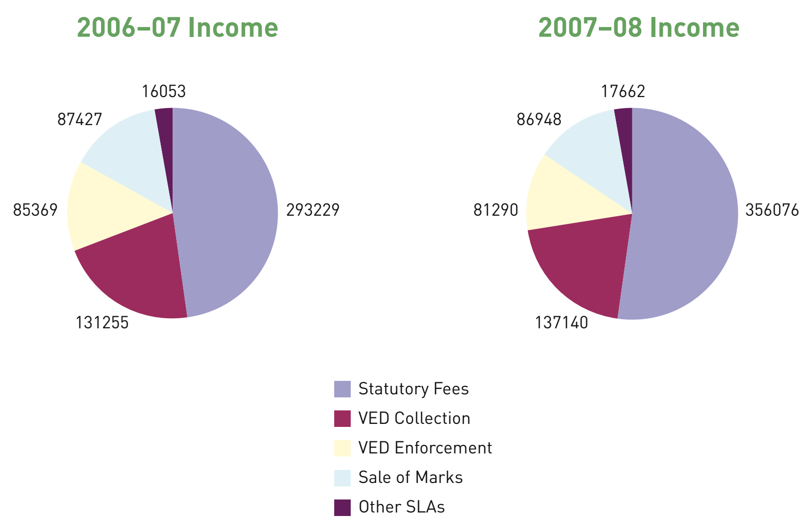

Finally, the fee levels were set for the year to cover continuing revenue expenditure on systems and process developments so included an element of increase to cover these additional costs.

The significant majority of Agency income continues to relate to its external activities, through statutory fee bearing activities or commercial activities. The VED activities remain funded through the Consolidated fund through DfT, with the levels of forward funding secured through Comprehensive Spending Review settlement.

Expenditure

The expenditure during the year (£542m) shows an increase of some £54m from that of the previous year (£488m) and was £26m ahead of the projected expenditure in the Business Plan. The additional expenditure relates to the additional transaction volumes experienced and an acceleration of systems upgrades required to fully stabilise and remove obsolete elements from the core operational systems.

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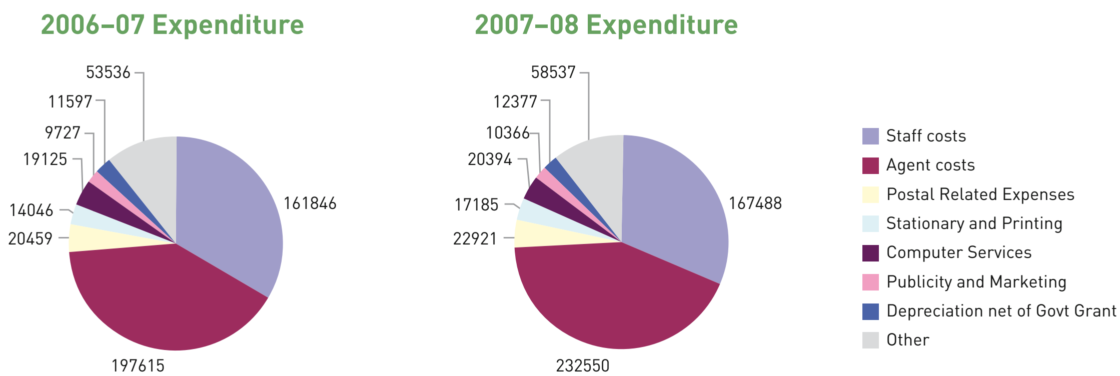
The major area of expenditure increase resides in the area of Agent Costs (those elements of DVLA activities that are outsourced) rising from £197.6m to £232.6m: £35m or just over 17.5%. These areas include IT development, maintenance and delivery services, facilities management, counter services (through post offices) and wheel clamping services. In total such services now account for nearly 43% of Agency operational expenditure.



Surplus, Reserves and Capital Maintenance

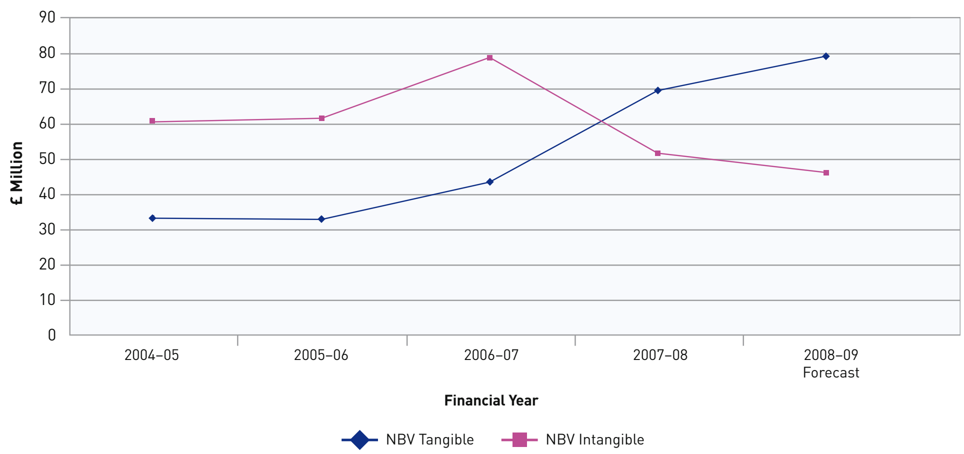
As a result of the net increase in both income and expenditure from the previous year, the surplus for the year rose from £9.8m to £20.5m. The surplus delivered was some £6.1m ahead of the original Business Plan forecasts, although £3.16m of this can be attributed to final closure and settlement of the Motor Vehicle Licence Savings Stamps scheme. The Dividend payable to DfT from the surplus for the year was £5.242m (£3.620m in 2006–07).

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

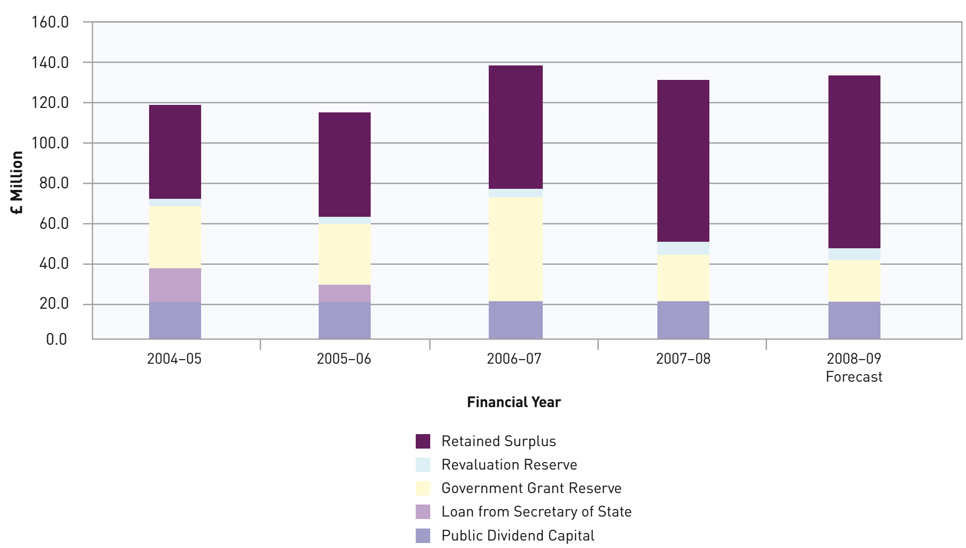
The first four years of Trading Fund operation have seen surpluses of income over expenditure totalling £75.1m, to add on to the initial £7.6m recognised in the Trading Fund Order as fees collected in advance of services delivered, giving a total operating reserve of £82.7m at the end of 2007–08. This retained operating reserve represents only around 12% of the current annual income level and has been used to underpin asset reinvestment.

This renewal and ongoing maintenance of our capital asset base from operating surpluses was catered for in our original Trading Fund projections, agreed with HM Treasury, through the generation of surpluses as described above. These surpluses were also required to enable DVLA to repay its original loans from DfT and replace the Government Grant Reserve as the related assets are amortised – replacing one set of reserves with another. The following figures show how the overall capital base has changed since we became a Trading Fund and how this is underpinned by our reserves.

Fixed Assets



Capital and Reserves



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Our longer term projections suggest that we reach equilibrium towards the end of 2009–10 when our depreciation and ongoing capital investments come roughly into balance. This coincides with the conclusion of our major estates refurbishment and renewal and the anticipation is that the surpluses thereafter fund the ongoing systems renewal anticipated. The decisions in respect of the Vehicles Systems software strategy, to be explored as the Vehicles 'Strategy' during the second half of 2008–09 may, however, have a significant impact on this assumption.

Asset Management Strategy

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

In terms of estates, the DVLA holds land/freeholds for its main operations centre in Morriston and long leasehold for the Richard Ley Development Centre in Swansea Vale, which represents the sustainable core business requirement. The LST PFI contract should largely complete Morriston refurbishment by the end of 2008–09, with facilities management subsequently provided across the full freehold/leasehold portfolio through until 2025. The Swansea Vale/ Fforestfach buildings are leasehold, as are all the Local Offices and we are vacating the first of the Swansea Vale buildings in 2008–09 as the renewed Morriston estate is fully commissioned. There are no additional properties or surplus estates receipts anticipated.

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

Efficiency

The Gershon Review efficiency targets for DVLA were to deliver, by March 2008:

- £50m cost savings from its operational expenditure, compared to the 2004 baseline (at 2004 prices, volumes, SoS target quality standards)
- £5m additional DVLA Personalised Registrations surplus and Cherished Transfer receipts, compared to the 2004 baseline (both of which were at record levels in 2004).

The Agency delivered £50.2m and £10.2m respectively. The efficiency gain targets were largely delivered through improving productivity, ending the period with 566 fewer posts (see

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page 40) whilst at the same time absorbing additional new work and increased transaction volumes. This improvement was significantly assisted by the introduction of e-services and managed channel shift from the old manual paper based systems. Cherished Transfer (personalised registrations) receipts continue to grow with the increasing stock of cherished marks held by the public and the sale of attractive number plates continues to be proactively managed and marketed by the Agency in a way to sustain the market.

DVLA, after consistently achieving its PSPP target of 98% payment within 30 days since its introduction, missed the target for 2007–08. The move of our transactions into the new Shared Service Centre disrupted our processes and purchase invoice workflows in a way that took several months to correct and improve. By March 2008, DVLA was again operating in excess of 93% compliance and is optimistic that 2008–09 will see the Agency exceeding this target once again.

The Agency has agreed new cost efficiency targets for the three year Comprehensive Spending Review period (2008–2011). These are in line with the Treasury requirements of delivering 3% efficiency savings per year.

Headcount

The Gershon Review manpower target of an absolute 500 FTE reduction in headcount was always going to be challenging as it took no account of additional statutory responsibilities or volume increases anticipated. There was also the additional challenge of the efficiency-enabling channel shift of VED transactions from the Post Office® branches into the new Electronic Vehicle Licensing (online) facilities, involving as it did the need for additional staff in our call centre to support the transactions.

DVLA managed delivery of this target across the full 4 year period, taking into account its forward strategy and development programme in terms of new work take-on, systems delivery and process changes.

In 2006–07, in addition to the original target, a further 75 FTEs were added to the net figure of 500 to offset the DVLA workload transferred to the Shared Service Centre and 57 FTEs taken off to reflect staff on long term sick giving a final target of 5,975. This reflects a net reduction requirement of 632 FTEs. The 632 net reduction final target represented a 1,132 (17%) reduction against the 2004 baseline activity.

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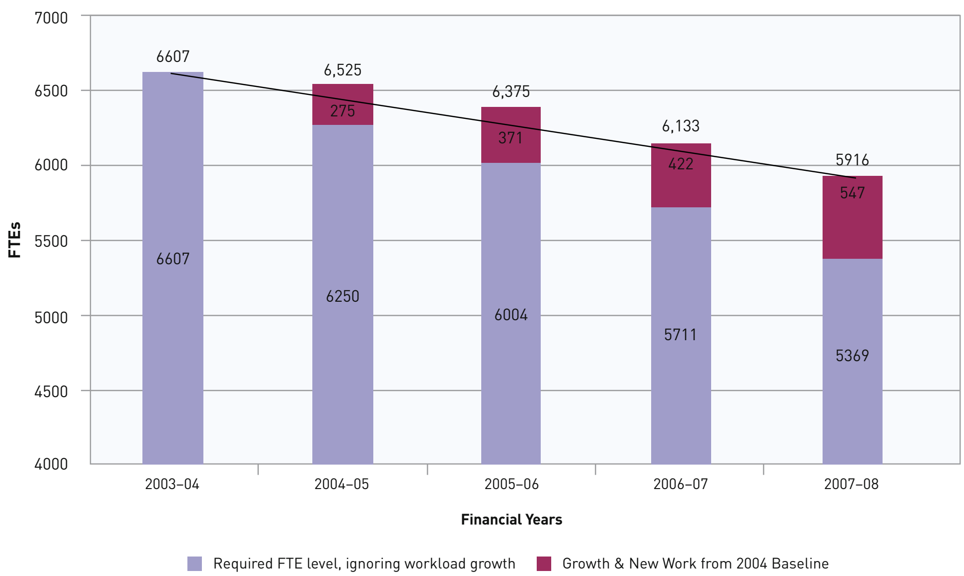
DVLA Workforce Plan 2004–08



At the end of 2006–07, DVLA employed 6,133 staff (excluding DfT SSC staff) and was 42 below the original target of 6,175 Full Time Equivalents (FTEs). By the end of the target period in March 2008, the figure achieved by DVLA was 5,916, some 66 staff below the target set. There are typically variations in staffing levels throughout the year, with the summer months seeing numbers of additional casual staff employed across the peak activity period, which coincides with the school holiday period.

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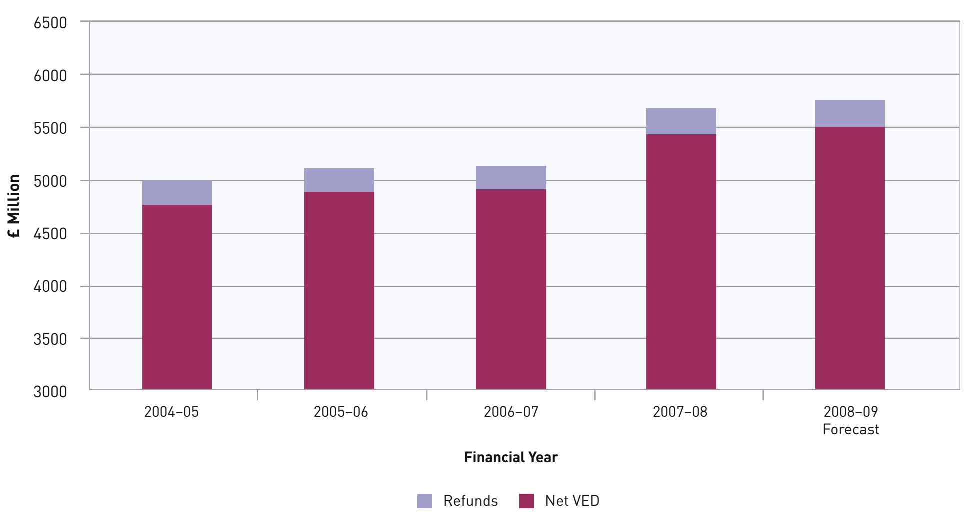
VED Collection and Enforcement Commentary

VED Collection

Total VED Collected

There was a significant increase in gross VED receipts collected during 2007–08 to £5.518bn, up £298m (6%) from the £5.220bn reported last year. With the value of refunds up by £13m (5.5%) to £249m from last year, this resulted in a net VED tax collection for the year of £5.269bn. This is the highest level of tax receipts ever collected by DVLA and continues an upward trend, supported by the gradual increase in number of vehicles in use.

Vehicle Excise Duty Collected 2004–05 to 2008–09



Since the 2003–04 baseline year of the Gershon Review, the gross receipts have increased from £4.92bn to £5.518bn, an increase of £598m (12.2%). Clearly, there are a number of factors involved in this increase, the number of vehicles, changes in graduated VED rates, changes in purchasing behaviour, shifts between the 6 and 12 months payment regimes and changes in the evasion rate. During this period DVLA introduced its Continuous Registration regime which has allowed enforcement from the record to be added to the on-the-road enforcement available previously.

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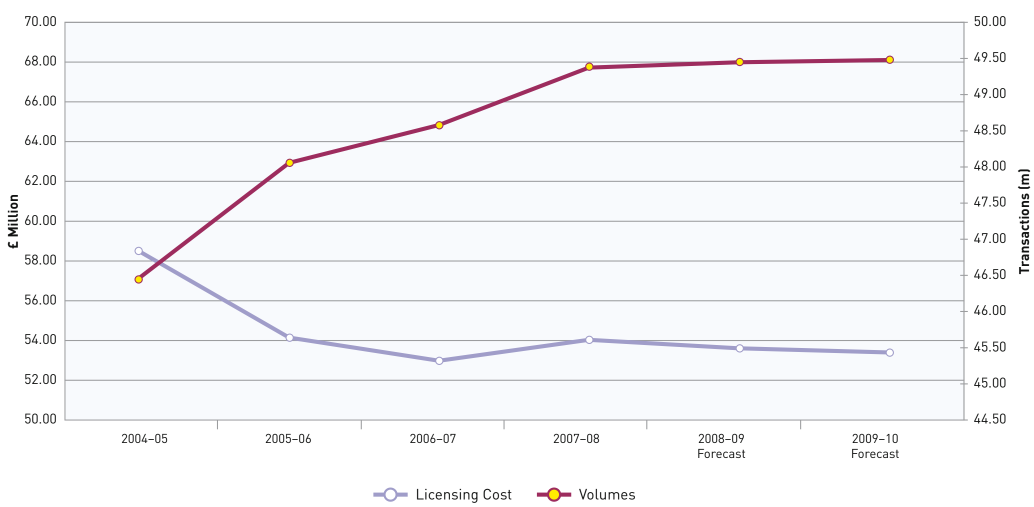
Costs of Collection and Unit Cost (per transaction)

The number of licensing transactions has risen significantly during this period, partly due to the introduction of Statutory Off Road Notification SORN (running at an average of around 1.7m vehicles during the year). However, DVLA has been able to reduce the direct costs of collection during this period, largely as a result of the introduction of EVL and process automation.

VED Collection on Costs and Volumes

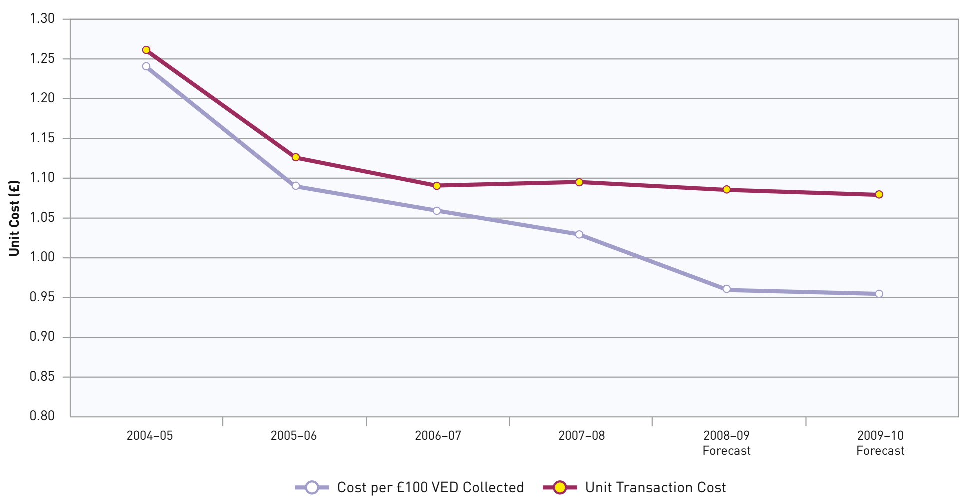


As a result of these two movements, the unit cost per collection transaction has reduced significantly during the period of the Gershon Review. DVLA has agreed new incentives for the public with DfT and HM Treasury to encourage continuing channel shift to electronic means to continue this downward trend.

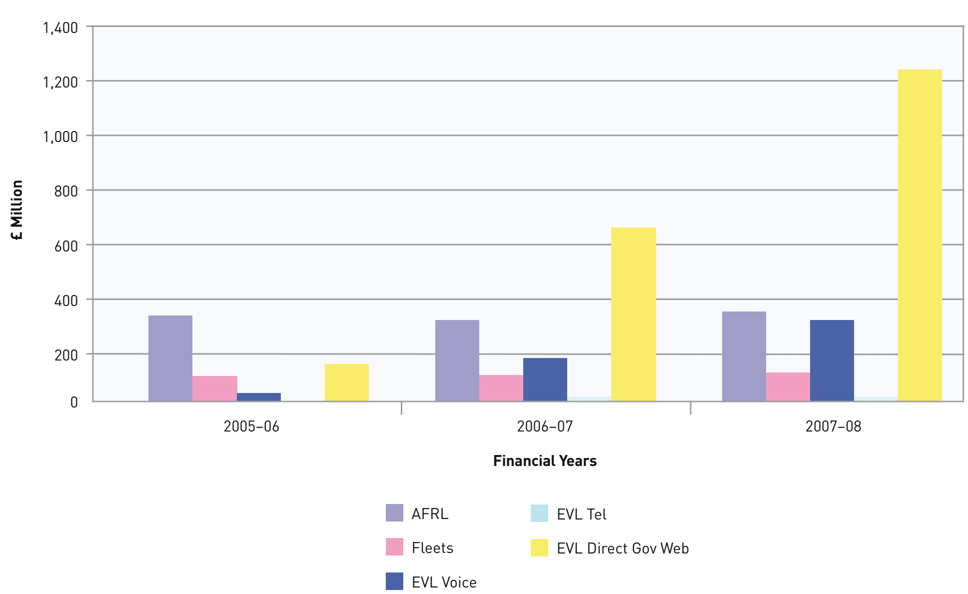
Channel shift and VED receipts by electronic channel are graphically illustrated on the next page, with a significant shift from the more expensive face-to-face transactions to online transactions. Such a transaction shift has inevitably involved an increase in calls to the DVLA contact centre in terms of transaction support and queries. Since the prime counter channel for face-to-face is at the Post Office®, this has had the unusual impact of increasing DVLA headcount whilst decreasing our costs, an impact we found difficult during the Gershon review period because of the nature of the targets we were set. The DVLA Local Offices continue to play a small but important role in this collection. For example they handle the more complex registration and licensing transactions where there has been a change in keeper and provide the Agency's Cherished Transfer service.

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

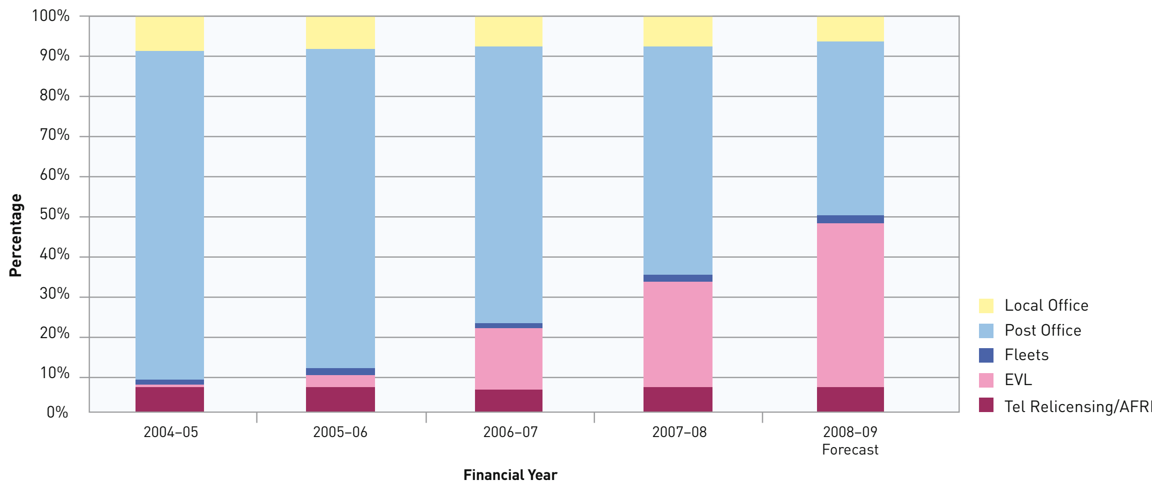
VED Collection Unit Costs



VED Cash Receipts collected via Electronic Channels



Vehicle Excise Duty by Channel



Processing of Refunds and Change in Legislation

A significant number of refunds are made in respect of VED each year, summarised below. The cost to DVLA of undertaking these refunds each year is £6.1m.

Refunds Analysis			
	2007–08	**2006–07**	**Variance**
Number	3,747,297	3,640,837	2.92%
Value £m	249	236	5.51%
Value/Refund (£)	66.45	64.82	2.51%

Following discussions with HMT, it was announced in the Finance Bill 2008 that from 1 January 2009, a change in legislation would be made, which will limit the entitlement to a refund of VED. The revised legislation states that refunds will be payable to the "relevant person" and defines the "relevant person" as the registered keeper of the vehicle at the time of the application or, in the case of a vehicle sold or disposed of, "the relevant person" can also include the registered keeper immediately prior to the sale or disposal.

When the provisions in the Finance Bill come into force, refunds will only be available in specific circumstances. These circumstances are when a vehicle is sold, scrapped, stolen, exported, a Statutory Off Road Notification has been made or when the vehicle has become exempt from the payment of VED.

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VED Evasion

VED Evasion Position

DVLA entered the 4 year Gershon period in April 2004 with a series of new initiatives to reduce VED evasion, including the significant change in regime to be brought about by the introduction of Continuous Registration. Annual roadside surveys, undertaken by DfT every June, provide a regular and independent measurement of evasion on the road through sightings at 256 sites spread across the UK, which are then processed through a statistical model to provide an estimate of uncollected VED. In June 2002, the reported in traffic evasion rate was 2.8 %, translating into a financial evasion rate of 4.8% representing some £206m lost tax receipts. On the basis of these estimates, DVLA was set a target to increase VED tax collection by £70m a year by March 2008 and, for consistency, this would be measured by the DfT Roadside Survey in June 2007.

In our Annual Report & Accounts 2006–07, DVLA reported its surprise at the results of the June 2006 Roadside Survey, which indicated an on-the-road evasion rate of 2.1%, translated into a 5% financial evasion rate representing £214m lost tax receipts. After some difficulty in processing the data collected statisticians reported the survey results in February 2007. The previous two roadside surveys reported financial evasion rate estimates of 3.4% and 3.6%. Our internal DVLA measures had indicated a steady downward trend, as indicated graphically in our report last year. The 5% figure appeared to be a significant deterioration in performance and on the basis of these results, we were held accountable by Public Accounts Committee (PAC) in October 2007 for poor financial performance and losing 5% of potential receipts to the Exchequer. Moreover, rates of nearly 40% evasion for motorcycles were quoted and both we and PAC feared that figures at such levels could bring the collection processes into disrepute.

The unexpectedly poor result prompted a thorough review of both our collection and enforcement processes and the measurements undertaken internally by DVLA. We reported this as a potential failing in our internal control mechanisms in our Statement of Internal Control for 2006–07. At the same time, DfT engaged the University of Southampton to review the statistical model. This review endorsed the structure and method of the statistical transformation of the raw sightings data into the reported figures.

For the June 2007 DfT Roadside Survey, the same approach and processes were used but new technology was employed consisting of ANPR cameras together with video recording to ensure

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data capture accuracy and an audit trail. This was instead of the previous manual methods. This, together with a number of process improvements, delivered what statisticians believe to be the most robust survey of this type they have undertaken. The technology allowed potential "number plate misreads" to be revisited on the video evidence and accurate vehicle details to be completely recorded for the first time. In the past, DVLA and DfT had been aware of potential data misreads, but the assumption had been that the impacts were neutral. In practice, when the effects were investigated using the new technology, it was found that evasion results would have been inflated if these errors had not been corrected. It has been concluded that previous roadside evasion estimates have in all probability been too high and the current survey results represent the start of a new series of statistics. We are not able to repeat the previous analyses or revisit the results because no video evidence exists to allow the same data cleansing.

Using the improved process, the results of the latest June 2007 Roadside Survey, published in February 2008, showed an 'in traffic' evasion rate of 1.1%. This translates into a financial evasion figure of 1.5% and an annualised revenue loss of £79m for 2007–08.

These figures now tally closely with the DVLA internal measurements undertaken with its own ANPR cameras, which have consistently shown figures between 1.0% and 1.2% on a monthly basis for the whole of 2007–08. DfT and DVLA witnesses were recalled by the PAC in April 2008 to explain the differences in results reported as these were released in such a short period after the PAC issued its original report.

DVLA is obviously pleased by these DfT survey figures, produced by a more robust process, in that:

- the level of evasion and tax lost to the public purse is far lower than perceived after the June 2006 survey evaluation

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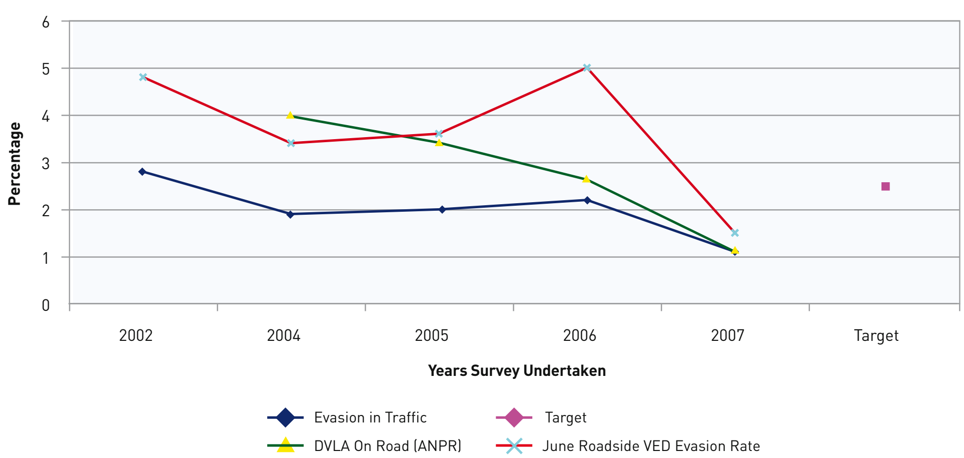
- we can present a true picture to the public of the effectiveness of our enforcement, one in which evaders are extremely likely to be caught and targeted (with motorcycle evasion still high but not as extreme as previously reported), an extremely important message of deterrence and likely to help us reduce evasion further.
- the three sets of DVLA internal measures (ANPR on-the-road monitoring, CR letters despatched and unlicensed vehicle scans) appear to be broadly in line with DfT's more robust methodology results and this has increased credibility in DVLA measures which underpin its operational decisions.

However, the improvement in robustness of data collection and cleansing used for the latest survey means that the baseline figures used for DVLA Gershon Review target setting, based on previous estimates are not directly comparable. It is likely that the previous loss estimates were inflated and this means:

- it is not possible to calculate directly the change in evasion, therefore, increase the tax collected
- if the original survey data had been collected with the same rigour, it is likely that the estimates would have been lower, therefore, the target for increase in the VED collected would also have been lower.

On the basis of these same original estimates arising from the roadside surveys, DVLA were given two further targets. To reduce by 50% the number of persistent evaders of VED from the June 2002 figure by 31 January 2007 and to reduce revenue loss from VED evasion to 2.5% by December 2007. Clearly, on the basis of the June 2007 survey, DVLA are delivering a rate that is far below this 2.5% target. However, the same difficulties in comparability arise and the original target might have been set lower had the same robust data capture been in place.

Estimated % VED Evasion Rate – GB



There has been significant debate between DfT, DVLA, HMT and NAO as to what conclusions can be drawn on target achievement since the lack of continuity of data series makes the precise *change* in evasion inconclusive.

In the absence of such external data, and in view of the convergence of results now reported between the most recent roadside survey and DVLA's key internal measure (ANPR), consideration of the internal DVLA trends may be the only evidence available. However, DVLA cannot claim full robustness for its internal data, it is meant to provide regular monthly information for informing operational decisions rather than robust proof of attainment of an externally set Government target. The technology we use internally has also been improving during the period.

It is not possible for us to quantify precisely the change impact of the new initiatives; Continuous Registration, wheelclamping and debt collection through agencies, but we believe the trends show they are effective and we should publicise this externally to help further reduce evasion. We need to stress to vehicle keepers that the enforcement tools that DVLA has in place are proving successful in maintaining a low level of evasion. The 2007 Roadside Survey

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estimates that at any one time, the number of unlicensed vehicles is around 589,000 vehicles. We anticipate continuing to generate around 2m enforcement cases a year to tackle unlicensed vehicles. This will include increasing our direct enforcement capability through more wheelclamping, raising the number of cases beyond 120,000 vehicles. The chances of being caught are growing.

Gershon Review Reporting and Future Targets

DVLA is reassured by the absolute level of evasion reported. The change in the way the roadside survey is evaluated means there is no firm comparison with the past and we are unable to conclude on whether we achieved the £70m extra VED revenue Gershon target. This follows discussions with colleagues in DfT, HM Treasury and NAO over what should be reported for 2007–08 and how future targets should be set and measured.

We have been unable to come up with a fully direct method of measuring the VED tax yield as defined by Gershon because of the sheer complexity of the VED tax collection model and the number of social, economic and operational factors involved. Instead, we developed a scan of the vehicle register identifying vehicles that were previously unlicensed, but relicensed following enforcement action by DVLA. This gives us the total of the VED generated by DVLA direct intervention through enforcement. However, this represents only a small subset of the Gershon tax yield target and excludes both the impact, particularly the deterrence impact, of Continuous Registration and also a number of other actions that DVLA takes to increase tax collection such as advertising, promoting electronic licensing and deterrent effect of increased enforcement actions.

We ran a scan of the vehicles database on the 2006–07 and 2007–08 data to see if there has been an increase in the VED collected, potentially attributable to DVLA enforcement action. In our calculations to estimate such improvement we needed to take into account any increased costs of VED enforcement that generated the additional VED receipts. In doing so we needed to exclude changes in advertising costs etc. as these influence the VED receipts generally and are not related to specific enforcement. Ideally, we would have run the scan for the whole period from 2004 but the data had not been retained in a suitable format, so we used 2006–07 as the base year.

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Our measurement underestimates the improvement made as:

a) we only take into account the small element of the VED improvement due to direct action and do not reflect the changed VED revenue

b) we include only two out of four years impact.

However, the method has been agreed with the HM Treasury efficiency team and DfT as the reporting method for the Gershon out-turn, although all recognise the inherent under-reporting involved.

VED collected in 2007–08 as a result of enforcement	£48.8m
VED collected in 2006–07 as a result of enforcement	£43.8m
Gross additional VED collected [A]	**£5.0m**
Cost of VED enforcement in 2007–08	£77.4m
Cost of VED enforcement in 2006–07	£80.0m
Decrease in Cost in 2007–08	£2.6m
Adjustment for price increases	£2.0m
Adjustment for change in enforcement volumes	£1.5m
Total cost savings after allowing for inflation and volume growth [B]	**£6.1m**
Efficiency Gain between 2006–07 and 2007–08 [A+B]	**£11.1m**

Firstly, we have agreed two external targets in respect of VED collection and enforcement to deliver over the CSR 2007 period:

- to reduce the costs of VED enforcement and collection (as for all our other costs) by 3% per annum over the three year period after allowing for GDP inflation and volume movement; these efficiencies have been built into the VED enforcement and collection CSR settlement so provided DVLA manages to stay within the CSR budgets, it will meet this target.
- to collect a total of £100m of VED through direct enforcement action over the three year CSR period; this is broken down to £30m/£30m/£40m over the three years. The method of measurement will be a monthly scan of the vehicle register to identify vehicles who have relicensed following enforcement action i.e. the method illustrated above.

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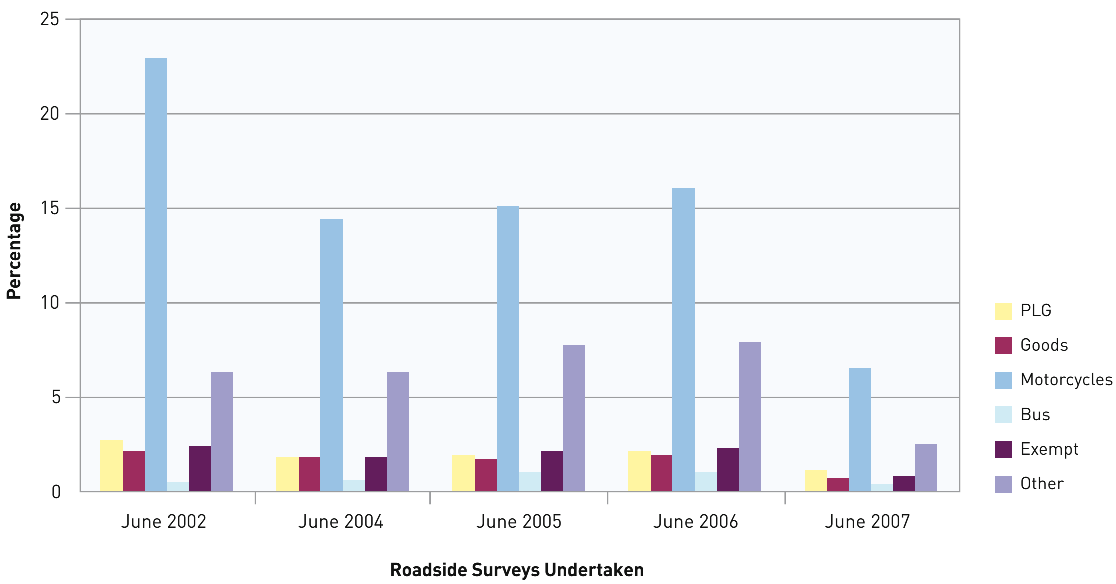
Evasion Rates in Traffic and Revenue Loss – By Tax Class

It is clear that vehicle keeper behaviours differ between tax classes of vehicles. However, because the difficulty of data misreads is also influenced by the type of vehicle and has been reflected in previous roadside surveys, the more robust handling of data during the June 2007 survey provides a slightly different view to that reported previously.

Evasion in Traffic in GB by Tax Class



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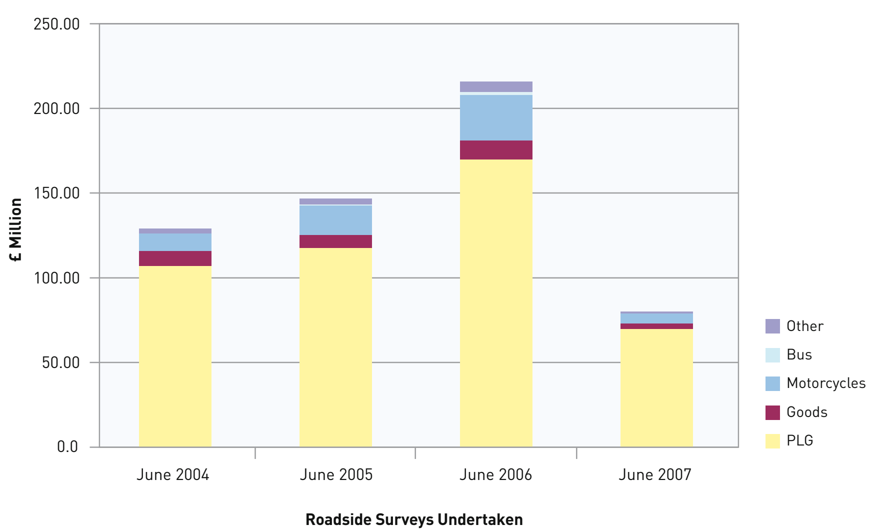
VED Enforcement Activities and Costs

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

The activities comprise:

- advertising
- Continuous Registration enforcement from the record
- referral of non replied to enforcement letters to debt collection agencies for further action
- ANPR cameras operated by DVLA
- prosecution of named reports of unlicensed sightings (primarily generated by police)
- "hot line" call handling from the public
- wheelclamping.

VED – Estimated Revenue Loss in GB by Tax Class



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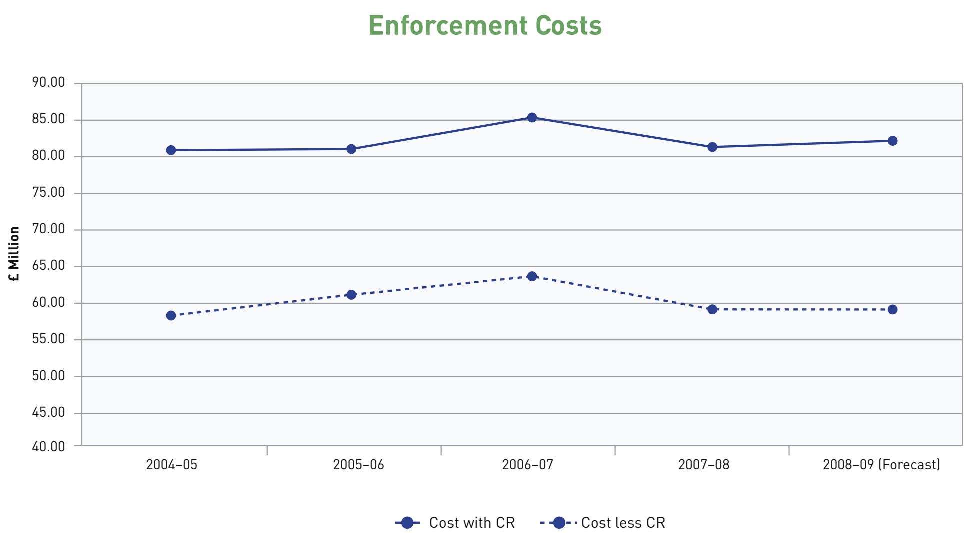
The total costs of these activities over the years are shown below:



The results of these enforcement activities are both direct and indirect:

- **Direct:** Unpaid VED is recovered from vehicle keepers, fines are collected and court costs recovered
- **Indirect:** In some cases, vehicle keepers are returned to compliance with future revenue impact. This can be calculated as induced relicensing. In addition, enforcement campaigns can have a local deterrent effect.

Wheelclamping has the greatest deterrent effect of all DVLA enforcement; however, this is the most costly activity per unit of interaction, and frequently results in vehicle crushing rather than direct financial recovery. As it is the only enforcement tool likely to have an impact on the persistent evader and vehicle related crime there is ancillary benefit in removing these unlicensed vehicles from the road.

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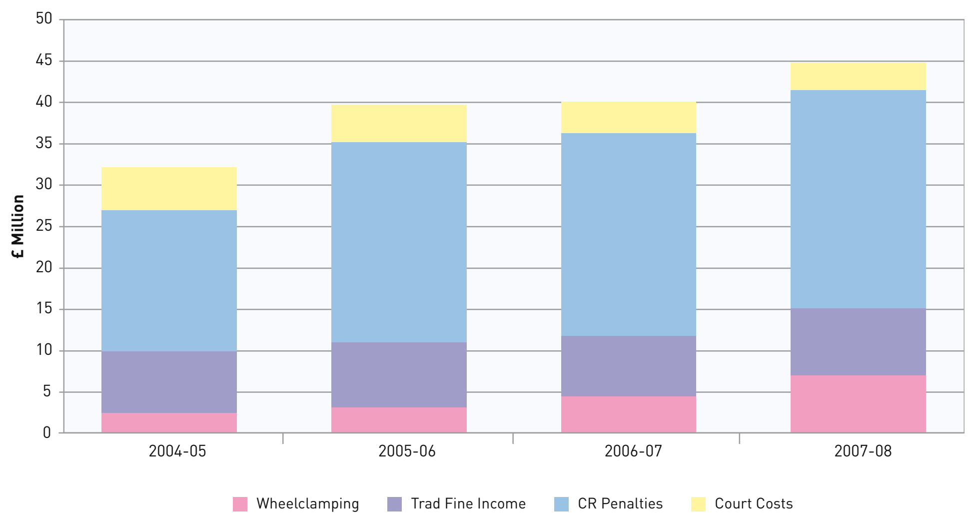
DVLA continues to balance the different enforcement streams according to available evidence and monitors results to move to the most effective mix.

Enforcement Receipts

Prior to 2007–08, DfT took the enforcement fine income into its accounts as a result of historic practice and the netting-off agreement it reached in 2004 with HM Treasury in respect of Continuous Registration fine income. In 2007–08, this regime was changed and the fine income is now passed directly to HM Treasury.

Enforcement Income



As a result, the amounts and treatment are disclosed as a note in the DVLA accounts for completeness only.

Number of Cases ('000s)	2007–08	2006–07	Notes
Late Licensing Penalty Notices Issued	1,219	1,272	Increase from 38.2 to 41.8%
Late Licence Penalty Notices Paid on Issue	510	486	
Unpaid	709	786	e.g. no current keeper
of which not resolved	587	491	
Court claims	7	108	Not cost effective
Less Court Claims Paid	7	29	
Cases Sent to Debt collectors	159	274	Part years in both cases
Less paid debt collection cases	37	58	

In terms of effectiveness of the fixed penalty approach enabled by Continuous Registration the table below summarises the results.

The above figures show that even with the use of debt collectors, a significant number of cases remain unsettled. However, we continue to increase the numbers of cases sent to debt collectors and to involve them earlier in the process, though during the year we had a gap in the debt collection 'activities' as we procured the ongoing new contracts after completing the pilots. We do not pursue cases where we find, on reviewing the details, that there has been no offence or there are compassionate grounds. Our processes for doing so during 2007–08 were reviewed and the systems themselves have been made more robust so that we are finding fewer instances where these cases have been incorrectly raised.

Number of cases abandoned	2007–08	2006–07
On compassionate grounds	22,290	19,200
No Offence	4,748	15,312

2007–08 has seen DVLA address the issue of recovery rates for court judgements and penalty letters issued. We completed a number of successful pilots with debt collection agencies during the year and have since, after agreement with HM Treasury on the accounting treatment and payment regime for debt collection, contracted with three debt collectors and their services will form an increasing element of our enforcement activities.

Next Steps

For the future, we are adopting a portfolio approach by developing a dynamic enforcement strategy. DVLA has an overall aim of working in partnership with the police, local authorities and other stakeholders to keep evasion in traffic below 2.5% over the period 2008–11. The effectiveness of partnership working will be evaluated but not included as a formal Secretary of State (SoS) target as it is not within DfT/DVLA powers or resources to deliver it alone.

The evidence from the latest roadside survey suggests that vehicle excise duty (VED) evasion is low. We are still evaluating the detail of those results but indications are that around half of all evasion is by those avoiding less than 2 months tax. We have recently been provided with an update on details of a persistent offender analysis from the Jill Dando Institute (JDI); this seems to bear consistent messages. By continuing to target the underclass through clamping 100–120,000 vehicles annually and increasing the scope and use of debt collectors, we will ensure that efforts to target "hard" evaders become more effective as the number of "soft" evaders decreases. Discussions with Home Office (e.g. in respect of the Assessment of Policy and Community Safety (APACS) police performance regime) and with DfT suggest that we should continue to monitor this and continue the JDI analysis, but not include this as a specific external SoS target.

Extension of Data Capture for Enforcement

In January 2007, the DVLA ANPR vehicles and equipment were upgraded. This has allowed for more vehicles to be spotted and for the Agency to use the data internally to monitor evasion in traffic rates. Improvements have been proposed and are in the process of obtaining approval. The Agency has a system in place that measures ongoing evasion trends. DVLA ANPR units are now sighting over 10m vehicles per year. The number of Continuous Registration Late Licensing Penalties issued monthly is also being monitored. In addition, the Agency reviews previous enforcement cases to understand the effectiveness in terms of induced compliance through relicensing or declaration of SORN.

Evasion Segmentation and Focused Enforcement

The Agency is in the process of developing an intelligence tool that will measure and track VED evasion levels on a monthly basis. It will produce segmentation and profiles of different categories of evader in order to use the most effective enforcement tools to increase compliance in each evader category. It will improve our understanding of the behaviour of evaders and the enforcement tools that are most likely to induce compliance. In addition, work is underway to carry out market research among previous motorcycle VED evaders to identify the influences and barriers to compliance, enabling the Agency to put in place systems that will encourage greater compliance among this segment of evaders.

Month Skippers

During April 2008 the Agency conducted a limited trial of warning letters issued to keepers of vehicles for just one month, reducing the period at which we take action from the current two-month period, i.e. targeted at the 'month-skippers'. The trial involved sending 5,000 warning letters to vehicle keepers who have neither relicensed nor made a SORN declaration for one month from the expiry of their last vehicle licence. A second scan undertaken three weeks later identified how many of these 5,000 vehicles had been relicensed. This figure was then compared to a control group of 5,000 keepers not sent warning notices to see how the relicensing figures between the two groups compared. Vehicles remaining unlicensed and/or without SORN at the end of May were issued with CR Late Licensing Penalty at the two-month stage.

Results of the trial are being analysed to determine the effectiveness of intervention in the form of a letter from DVLA at the one-month stage. The results will inform decisions on future policy in this area.

Payment of Arrears on Relicensing

In the 2007–08 financial year, DVLA Local Offices accepted voluntary payments of arrears of duty for nearly 200,000 vehicles (170,000 of these relicensing as a direct result of CR enforcement action). In addition, cases taken to Magistrates Courts for unlicensed use of vehicles on a public road also result in a penalty that is equivalent to any arrears of duty outstanding. For the same period, there were 83,000 cases where the Courts ordered payments of £5.1m.

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03 Remuneration Report

Remuneration policy

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

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

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

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

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code which requires appointments to be based on fair and open competition but also includes the circumstances when appointments may otherwise be made. Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 65. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salary and pension entitlements

The remuneration and pension interests of the Chief Executive and Directors are set out below.

Mr Jeremy Forshew is an employee of IBM Business Consultancy Services and was a member of the Executive Board during 2007–08 until January 2008. Mr Forshew's role on the Board was defined to share our plans and strategies with our PACT partner but he has not been remunerated by DVLA or subject to any pension provision. He is therefore excluded from the tables that follow.

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

Salary

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

Performance is assessed annually for Directors through the appraisal processes stipulated by DfT and entitlement to performance enhancements or bonuses established in comparison across the DfT family through the Departmental evaluation committee, chaired by the Permanent Secretary. The Directors did not receive any non-cash benefits during the year. The standard period of notice to be given by Directors is three months. With the exception of the Chief Executive (28% – see below), no Director's bonus exceeded 10% of total salary.

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The following tables are subject to audit:

Remuneration of the Board	Salary including performance bonus (£'000s)	
	2007–08	**2006–07**
Chief Executive		
Clive Bennett (to December 2007)	115–120	135–140
Noel Shanahan (from January 2008) (previously Customer Services Director)	20–25	n/a
Other Directors		
Ieuan Griffiths – Finance & Strategy	95–100	90–95
Richard Kitchen – Policy & External Communications	75–80	70–75
Sharon Baker – PACT Services	75–80	70–75
David Hancock – Local Operations	80–85	70–75
David Evans – Central Operations	75–80	70–75
Noel Shanahan – Customer Services (to December 2007)	65–70	85–90
Andrew Rhodes – Customer Services (from January 2008)	15–20	n/a
Avril Beynon – HR & Estates	70–75	65–70
Robert Duncan – Shared Services Centre (from June to December 2007)	55–60	n/a
Kate O'Connor – Shared Services Centre (to August 2007)	40–45	70–75

Chief Executive Remuneration:	**£000**	**£000**
Clive Bennett		
Salary	84	114
Bonus Payments	32	21
Pension contributions	33	45
	149	**180**
Noel Shanahan (from January 2008)		
Salary	25	n/a
Bonus Payments	0	n/a
Pension contributions	9	n/a
	34	**n/a**

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Pension Benefits	Real increase in pension and related lump sum at age 60 during year	Total accrued pension at age 60 and lump sum (LS)	Cash Equivalent Transfer Values (CETV)		Employee contributions and transfers in during year	Real increase in CETV as funded by employer in year
		31/03/2008	31/03/2007	31/03/2008		
	(£'000s)	(£'000s)	(£'000s)	(£'000s)	(£'000s)	(£'000s)
Clive Bennett Chief Executive (to December 2007)	0 – 2.5 plus 2.5 – 5 lump sum	10 – 15 plus 30 – 35 lump sum	218	261	1.2	21
Noel Shanahan Chief Executive (from January 2008)	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 0 – 5 lump sum	42	73	3.0	22
Ieuan Griffiths Finance & Strategy	0 – 2.5 plus −2.5 – 0 lump sum	30 – 35 plus 55 – 60 lump sum	356	598	13.2	16
Richard Kitchen Policy & External Communications	0 – 2.5 plus 0 – 2.5 lump sum	30 – 35 plus 105 – 110 lump sum	755	856	1.1	6
Sharon Baker PACT Services	0 – 2.5 plus 0 – 2.5 lump sum	20 – 25 plus 60 – 65 lump sum	385	458	1.9	15
David Hancock Local Operations	0 – 2.5 plus 0 – 2.5 lump sum	5 – 10 plus 20 – 25 lump sum	127	159	1.1	15
David Evans Central Operations	0 – 2.5 plus 0 – 2.5 lump sum	15 – 20 plus 55 – 60 lump sum	245	298	1.1	9
Andrew Rhodes Customer Services (from January 2008)	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 0 – 5 lump sum	12	19	0.4	4
Avril Beynon HR & Estates	0 – 2.5 plus 2.5 – 5 lump sum	30 – 35 plus 100 – 105 lump sum	752	869	1.1	22
Robert Duncan Shared Service Centre (from June to December 2007)	0 – 2.5 plus 0 – 2.5 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	0	14	2.0	12
Kate O'Connor Shared Service Centre (to August 2007)	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 0 – 5 lump sum	32	51	6.6	13

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Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

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

Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

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Cash equivalent transfer values (CETV)

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

Real increase in CETV

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

N. C. Shanahan

Noel Shanahan
Chief Executive
and Accounting Officer

14 July 2008

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04 Accounts for 2007–08

Statement on Internal Control 2007–08

Scope of Responsibilities

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

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

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

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

Purpose of Internal Control Systems

The Agency's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of DVLA and DfT policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

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The system of internal control has been in place in the Agency for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance relating to corporate governance and management of risk.

Risk Management Approach and Capability

I have appointed an Executive Board (EB) that I chair, to assist with management of DVLA. It comprises the Directors of the Agency functions as well as, until January 2008, an IBM Director from the Agency's strategic partnership.

The EB meets formally each month to review the performance, including the identification and management actions to address the key operational and immediate risks facing the Agency. The EB regularly considers the strategic direction and plans of the Agency, including overseeing of the Agency's transformation agenda. This includes identification and consideration of the strategic risks faced by the agency and the long term structures and infrastructure changes needed to address them.

The Agency's three Non–Executive Directors also bring ideas and advice from their different experience to bear on Agency issues. The Non-Executive Directors have exerted their influence through regular attendance at the EB and the DVLA Audit Committee, on which two of them sit together with a DfT nominated representative. The SSDL DG and Strategy and Resources Director have helped ensure that sufficient priority was afforded to risks impacting the overall DfT and SSDL objectives through attendance at the EB and planning meetings.

The DVLA capacity to handle the delivery and technology risks at the core of its business is greatly enhanced by our contract with IBM, supported by Fujitsu Services. This contract is based on partnership and risk sharing principles although with a very clear customer/supplier legal framework and provides the Agency with a unique opportunity to use technology and innovation to deliver enhanced and expanded services to the public.

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

Processes are being developed to ensure that the 'bottom-up' and 'top-down' risk assessments integrate properly and are currently refining and making explicit the Agency's definition of its risk appetite. Stewardship arrangements have been refined during the year to make more explicit the accountability of Directors and Senior Managers, with use of Control Risk Self Assessment trialled to support risk identification. RMO staff and EB members meet monthly to discuss their own Directorate risks, together with monitoring the actions on risks escalated to the DVLA corporate risk register for which the individual members are responsible. The EB discuss high level corporate risks periodically; with the main recent risks relating to the ability of the Agency IT infrastructure to accommodate new release demands; and the need to ensure that the development and implementation of the new Shared Service Centre does not impact adversely on either the provision of customer services or Agency control frameworks.

All key delivery partner contracts, with Post Office®, NCP as Wheel Clamping providers, and also with dealers who use our AFRL systems, Police and Courts who access our data systems direct and, in future, with commercial companies who access our data with formal customer consent – have direct access provisions for our Internal Audit teams to review controls in operation and for compliance to the robustness of control specified in the access documents.

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

- Programme and Project: Risks are identified by Project teams using a PRINCE2 based methodology. These are revised on a regular basis and are overseen by project and programme boards. Project processes and registers conform to HM Treasury Orange Book and OGC guidelines on the "Management of Risk". All projects and programmes have regularly reviewed risk registers
- Operational Activities: Operational risks are identified and actively managed at a Directorate level via directorate risk registers
- Corporate: The corporate risk register is at the top of the DVLA risk hierarchy and contains risks from the directorate and programme registers. In addition, individual EB members can place risks directly onto the register
- DfT and DVO/SSDL group risks: Risks having an impact across the DVO/SSDL Directorate, or potentially the wider DfT, are escalated to the relevant risk register.

Change Projects Control

Progress monitoring and change risks identification is managed at both programme and project levels, with cross programme risks being monitored on a monthly basis by our Centre of Programme and Project Expertise (COPPE), designed to sustain best practice in managing change successfully through the use of programme and project disciplines.

EB members are appointed with full SRO responsibilities to programmes and are held personally responsible for delivery. COPPE has been accredited by an Office of Government Commerce (OGC) approved assessor and meets the requirements laid down by OGC.

All proposed projects are subjected to initial review by the New Initiatives Panel, and if successful are allocated to an operational area or, if significant, passed to the Strategy & Feasibility Programme for study and exploration. Within this programme technical aspects are reviewed by the Technical Review Team, stakeholder support sought, design principles established and outline business case developed if appropriate. If the business case is approved, this is proposed for handover to the Delivery Programme. The Change Release Board has to confirm a timetable for introduction and it goes to the SSDL Investment Appraisal Board for approval if the criteria indicate classification as a 'Strategic Project'.

All significant projects, in both DVLA and DVA are subjected to the prescribed risk assessment process and scoring and then subject to an appropriate level of independent OGC Gateway™ reviews by high/medium risk reviewers appointed by the OGC at decision points throughout their project lifecycle. Smaller and low risk projects are peer reviewed by internal reviewers through a similar process.

Financial Control

The systems of management control established include the DVLA Finance Committee, which has delegated expenditure responsibilities and provides advice on operational budgets and project affordability advice to the EB. The budgetary controls are supported by the Integrated Resource Management (IRM) monthly planning cycle, which monitors volume and change demand, resource supply and a balancing process, the results of which are reported monthly to the EB for action and forward decisions. The IRM process is also fundamental as part of our efficiency and VfM planning and monitoring, especially in respect of headcount.

The monitoring and reporting processes used to monitor DVLA progress against its Gershon Review targets have been based on these existing mainstream control functions. We did not introduce separate or stand-alone processes to monitor our efficiency gains but used

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the integrated processes already in place so the monitoring should be more robust and comprehensive – hence more integrated and consistent.

Proposed expenditures (both IT and non-IT) that are programme or project based, have their business cases assessed by the Finance Committee, which either rejects/approves or makes recommendations to the EB depending on the level of expenditure involved. Business cases have to comply with the DfT Investment Appraisal Framework, incorporating the best practice 5-Case business model advocated by OGC and HM Treasury.

The COPPE then monitors and tracks programmes through to closure, providing Programme Delivery Board, and EB if significant enough, with advice on project and business decisions, including potentially the cancellation of individual projects if the business cases and risk appraisals (updated regularly) indicate this to be appropriate. Tier 1 and 2 projects have their business cases considered and budgets approved, together with monthly progress reporting and monitoring by DfT and SSDL Boards respectively. Progress on the DRP Project is also reported through to Ministerial Committee because of its strategic nature and scale.

New Shared Services Arrangements

At the start of the financial year 2007–08, DVLA and DSA migrated from their previous shared arrangements into a more formal shared service provision, which is planned to offer services to the DfT family over the next few years. This meant a more formal approach to governance and programme development to take account of the greater number of participants, together with a fuller separation of Finance, Payroll and HR staff and activities into the new centre from the two agencies. The transactional support functions are now undertaken from the newly established Shared Service Centre based in Swansea. This required a migration onto SAP ERP from the previous SAP R3 software, together with new processes and controls.

As a result, the controls framework and assurance arrangements changed during 2007–08. The anticipated migration of DfT in April 2008 further changed the governance, with the Shared Services Customer Board (representing user Accounting Officers) assuming greater responsibility from February 2008, for example receiving Internal Audit and external assurance reports on SSC controls. The SSC will operate controls over transactions in accordance with responsibilities and activities set out in the SLAs with customer organisations. During 2007–08 these were not fully articulated or defined at the point of go live because of constraints on the development time, but evolved as DSA/DVLA and SSC refined the original agreed activities. These are continuing to be developed during 2008–09, including the recommendations made as a result of internal audit, half year audits and learning from the first end of year exercise.

The Director of Shared Services has delivered to user Accounting Officers, including me, a formal assurance statement on controls within the SSC. This concluded that controls were not fully developed during the period and there were significant weaknesses identified, with these described as previously recognised within DVLA. This assurance includes detail of weaknesses addressed during the year but also of a number still to be resolved in 2008–09. DVLA IA has undertaken assurance work on the operation of these controls in-year and provided reports to Accounting Officers direct and through the Customer Board mechanisms. The partial assurance provided to DVLA through this internal audit route correlates strongly with the SSC assurance report noted above. Each organisation has its own IA assurance for those internal elements of the transaction streams outside the SSC and each Accounting Officer has responsibility to ensure that the two sets of controls provide an environment of overall appropriate control for their own organisation.

During 2007–08, the controls within SSC and those within DVLA, together with the assurance-giving arrangements were evolving as initial transactions issues emerged following live running of the SSC. The recognised shortfalls in SSC Centre controls – especially for the first few months of the 2007–08 financial year – meant that DVLA had to undertake significant additional work in terms of compensating controls to ensure that the overall level of controls remained appropriate and satisfactory. A fully comprehensive half year audit was commissioned by DVLA in respect of both SSC and DVLA controls and the reported figures at the half year point, to ensure that all issues were being adequately covered. The reports produced made a large number of detailed recommendations in respect of improvements, but concluded that the steps taken by DVLA in terms of overall control to remedy short term weaknesses identified were adequate in terms of accounts production and that both the transition process and ongoing transactions had been conducted within an adequate financial control environment.

Action plans to improve the controls at a detailed level for both SSC and DVLA were defined by the end of February and good progress was made by the end of 2007–08. Implementation continues and will take some months to complete. Accordingly, DVLA continue to undertake a level of compensating controls in excess of the activity envisaged and, as Accounting Officer, I plan to keep these compensating controls in place until I am confident that these can be relaxed. The assurance statement from the Director of Shared Services sets out a detailed action plan and timetable for achieving the recommendations, together with progress to date. These are acceptable and will allow me to subsequently remove some of the compensating control activities currently undertaken by my staff and move closer to the benefits realisation initially projected.

The NAO completed a review of the overall Shared Services Programme delivery in early 2008, publishing its report on 23rd May 2008 and the PAC, at its hearing on 9th June 2008, considered the report and will publish its findings and recommendations in due course.

Value for Money

Business changes proposed, especially but not exclusively through projects, are examined through business case processes. There are benefits realisation steps and monitoring built in to all such developments. In addition, all procurements and contract management complies with EC procurement regulations and to ensure full competition for services and products from suppliers. All contracts, including project delivery, have quality plans in place to ensure that the quality aspects of VfM are fully considered and delivered in addition to cost monitoring.

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

Controls over Data and Management Information

DVLA core functions relate to the management and maintenance of its driver and vehicle registers. It is essentially an organisation that is responsible for secure handling and maintenance of two of the largest databases in Government, including data transmission and access control. It undertakes over 110m transactions (i.e. excluding 15.5m call centre contacts) each year in respect of these databases. Hence it is critically concerned with data security and complies strictly with legislative release provisions, Data Protection Act and Cabinet Office guidelines.

We have transferred most of our data transfers from physical media to secure and encrypted electronic channels though our "ELISE" project and this migration will continue to eliminate physical transfers. Sensitive data on remaining physical media are transferred on encrypted CDs, but we are working with all external recipients to move to fully electronic secure transfer. A large proportion of our interactions with the public still use paper notifications, reminders and documents. When we transfer *bulk data* in this way, we use a secure delivery "hub and spoke" arrangement to ensure that the risk of loss is minimised.

During 2007–08, we reported two breaches of data privacy that occurred during the year:

- despatch of up to 1,215 letters (containing name, address and driving entitlements) to incorrect recipients as part of a data accuracy survey, through incorrect clerical matching of details with addressees
- provision of an incorrect and insecure version of the customer portal through Directgov for a Driver transaction for a short period after software upgrade – this was replaced immediately with the correct secure version as soon as the operations team were notified.

Since these breaches, we have tightened up on the administrative procedures that support our interactions with Government Organisations and our customers, as noted above, through continuing our migration to secure, encrypted electronic interfaces and separate handling streams for individual customer transactions and bulk data activities.

Our DVLA network is accredited to Government security standards on an annual basis and all new services go through a comprehensive risk assessment before moving into live operation. These assessments have to be approved by a Government Accreditor who is independent of the project delivery and formally signs off his approval to go live. The risks to the data being processed are formally evaluated and recorded in a "Risk Management Accredited Document" set and the risk assessment score has to meet pre-set criteria prior to going live.

Key DVLA buildings are compliant with the Government Security Guidance and adopt a layered approach, with our most sensitive locations under strict access control, including biometric access restriction.

In translating its data into information to support planning and operational decisions, DVLA is increasingly centralising its management of information to increase quality and consistency, moving to use its major operational data assets through new data warehousing and Online Applications Processing (OLAP) technology.

Last year we reported that our internal vehicle registration data was at odds with VED evasion estimates based on the DfT VED roadside survey results. In the event, more robust data collection and handling in the subsequent 2007 roadside survey saw the DfT evasion estimates move close to the levels reported through internal DVLA management information. The robustness of the DVLA internal data itself is also improving through the application of newer versions of ANPR and the far greater numbers of vehicles this technology allows us to identify.

Review of Controls Effectiveness

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

- the formal controls assessment (SIC) completed by the Director of the Shared Services Centre on their completeness and accuracy of processing
- advice from the independently chaired DVLA Audit Committee
- the annual review programme of work undertaken by Internal Audit
- the review work undertaken by the PPA teams on programmes and projects
- the efficiency conclusions of the BQS review team
- other reports commissioned as reviews of specific control issue areas
- comments made by External Audit in their Management Letter and other reports.

The EB and Audit Committee assist in these processes and a plan to address weaknesses and ensure continuous improvement of the system is in place. These processes apply to all Agency activities and transactions – being applied to both the Agency business accounts and to the VED Account, the report in which the collection of Vehicle Excise Duty is detailed.

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

Internal Audit (IA). DVLA Internal Audit operates to prescribed Government Internal Audit Standards and provides me with an independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. The Audit planning process is subject to regular update to ensure that it remains focused on the key risks to the Agency. IA works

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to common standards and processes relating to audit planning and reporting with other internal audit units in the DfT group. The IA function was itself the subject of an independent review of standards and effectiveness as part of an overall DfT review during 2006–07 and further standardisation of process and documentation across DfT is underway. The Agency's HIA has free access to the DVLA Audit Committee chair and to me as Accounting Officer. IA also works collaboratively with other review bodies within the Agency and with the Agency's partners, IBM and Fujitsu. This includes regular consultation, co-ordination of plans and selected reviews, and sharing of information. IA has a developing programme designed to obtain assurance that significant external users of DVLA data are using this data and information we provide in an appropriate manner.

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

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

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

DVA Control Assurance and Vehicles Responsibilities

DVA is subject to internal audit review by the DOE. I draw assurance from the opinion the DOE HIA provides to the DVA Agency Accounting Officer. This is overseen by the DVA Audit Committee chaired by the Non-Executive chairman of the DVLA Audit Committee. DVA projects follow the same project lifecycle arrangements and submit documents for funding approval via the DVLA EB. These are also subject to the assurance oversight by PPA.

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Head of Internal Audit Opinion

The overall opinion I have received from my Head of Internal Audit is that she can provide a substantial level of assurance that DVLA's governance, risk management and control arrangements are established and found to be working effectively. Where Internal Audit identified needs for control enhancements these were not deemed significant in the context of the overall control environment. Where enhancements needed were identified, corrective action has been agreed and delivery of these actions has contributed to the overall assurance reported within the Statement on Internal Control. Areas of weakness were identified in relation to controls operated on behalf of DVLA by the DfT Shared Services Centre (SSC) but there is no evidence that these weaknesses have been exploited. Where required, the Agency took additional actions to address these SSC control gaps and limit the risk of material mis-statement of financial statements.

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

Noel Shanahan
Chief Executive
and Accounting Officer

14 July 2008

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Statement of the Agency and Chief Executive Responsibilities

Business Accounts

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

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

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

HM Treasury has appointed the Chief Executive of DVLA as the Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DVLA's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

VED Accounts

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

In preparing the VED Account, the Accounting Officer is required to have regard to the Statement of Principles for Financial Reporting published by the Accounting Standards Board and UK Generally Accepted Accounting Practice, to the extent that these are meaningful and appropriate, and in particular to:

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

HM Treasury has appointed the Chief Executive of DVLA as the Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the DVLA's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting. The Accounting Officer is also responsible for the fair and efficient administration of the VED regime including the assessment, collection and proper allocation of VED revenue.

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

I certify that I have audited the financial statements of the Driver and Vehicle Licensing Agency Business Account for the year ended 31 March 2008 under the Government Trading Funds Act 1973. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

These responsibilities are set out in the Statement of the Agency and Chief Executive's Responsibilities.

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

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

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

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

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

Basis of audit opinions

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

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

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Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Fund Act 1973 and directions made thereunder by HM Treasury, of the state of Driver and Vehicle Licensing Agency's affairs as at 31 March 2008 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information, which comprises the Directors' Report, the Management Commentary and unaudited parts of the Remuneration Report included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements. I report separately on pages 122 to 128 on the VED Account.

T J Burr
Comptroller and Auditor General

National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SWIW 9SP

18 July 2008

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DVLA Business Accounts For 2007–08

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

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Income from operations					
Income from activities	2	**460,686**		396,709	
Other operating income	2	**218,430**		216,624	
Total income from operations			**679,116**		613,333
Expenditure					
Operating costs	4	(361,953)		(314,508)	
Staff costs	3 &11	(167,488)		(161,846)	
Depreciation, Amortisation and Impairment	6 & 7	(51,266)		(15,903)	
Less: Government Grant Written Off	14	38,889		4,306	
Total operating expenditure			**(541,818)**		(487,951)
Operating surplus			**137,298**		125,382
Loss on disposal of fixed assets			**(0)**		(1)
Surplus payable to Consolidated Fund			**(117,815)**		(115,574)
Interest receivable and similar income			**6,236**		3,870
Interest payable on loan from Secretary of State			**0**		(304)
Dividend payable	5		**(5,242)**		(3,620)
Retained surplus for the year	2		**20,477**		9,753
Retained surplus brought forward			**62,207**		**52,454**
Retained surplus carried forward			**82,684**		**62,207**

Statement of Total Recognised Gains and Losses		**2008 £000**	2007 £000
Surplus for the financial year	2	**20,477**	9,753
Unrealised surplus on revaluation of tangible fixed assets	14	1,836	823
Total recognised gains and (losses) relating to the year		**22,313**	**10,576**

All income and expenditure are derived from continuing operations.

Notes forming part of these accounts appear on pages 83 to 110.

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Balance Sheet as at 31st March 2008

	Note	**31.03 2008 £000**	**31.03 2008 £000**	31.03 2007 £000	31.03 2007 £000
Fixed assets					
Intangible assets	6	**51,668**		78,668	
Tangible assets	7	**69,388**		43,505	
			121,056		122,173
Current assets					
Debtors due within one year	8	**83,961**		51,998	
Cash at bank and in hand	9	**45,769**		42,493	
		129,730		94,491	
Creditors (amounts falling due within one year)	10	**(104,885)**		(58,342)	
Net current assets			**24,845**		36,149
Debtors due after more than one year	8		**6,103**		4,258
Provisions for liabilities and charges	11		**(19,636)**		(24,004)
Net assets			**132,368**		138,576
Financed by:					
Capital reserves					
Retained Surplus		**82,684**		62,207	
Public Dividend Capital		**19,048**		19,048	
Government Grant Reserve		**24,159**		52,680	
Revaluation Reserve		**6,477**		4,641	
	14		**132,368**		138,576

Notes forming part of the accounts appear on pages 83 to 110.

Noel Shanahan
Chief Executive and Accounting Officer

14 July 2008

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Cash Flow Statement for the 12 months ended 31 March 2008

	Note	**31.03 2008 £000**	31.03 2007 £000
Operating Activities			
Net cash inflow from operating activities	13	**137,028**	132,106
Return on Investments and Servicing of Finance			
Dividend paid		**(3,620)**	0
Interest paid		**0**	(304)
Interest received		**6,236**	3,870
Net cash inflow from return on investments and servicing of finance		**2,616**	3,566
Capital Expenditure and Financial Investment			
Payments to acquire intangible fixed assets		**(19,707)**	(24,533)
Payments to acquire tangible fixed assets		**(10,195)**	(12,598)
Net cash outflow from capital expenditure and financial Investment		**(29,902)**	(37,131)
Net Cash Inflow Before Financing		**109,742**	98,541
Financing			
SSC Grant		**0**	30,864
Principal paid on loan from Secretary of State		0	(8,455)
Surplus paid to Consolidated Fund		**(106,466)**	(114,281)
Net cash outflow after financing		**(106,466)**	(91,872)
Increase in Cash Balances	12	**3,276**	6,669

Notes forming part of these accounts appear on pages 83 to 110.

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Notes to the accounts

Note 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2007–08 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the Financial Reporting Manual follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the Financial Reporting Manual permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

Accounting convention

These accounts have been prepared under the historical cost convention, modified to include the revaluation of tangible fixed assets, at their value to the business by reference to their current costs. The financial statements have been prepared in accordance with the revised accounting direction issued by HM Treasury on 25 April 2006. They meet the requirements of the Companies Acts, and of the Statements of Accounting Standards issued and approved by the Accounting Standards Board, so far as these requirements are appropriate.

Taxation

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

Leases

Operating lease rentals are charged to the Income and Expenditure Account in equal amounts over the lease term. There were no finance leases during the period.

Intangible fixed assets

The value of licences to operate the driver and vehicle systems are capitalised. Software development costs are capitalised, excluding any costs incurred in the planning and design stages of the project, which are clearly defined and separate from the build phase of a project. New expenditure on IT systems development is written off in the period in which it is incurred, unless a beneficial relationship to a future period can be established with reasonable certainty, in which case the charge is capitalised. The Agency does not revalue intangible

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fixed assets, as the assets do not have a readily ascertainable market value.

The value of the drivers and vehicles databases, including unallocated vehicle registration marks, cannot be estimated. The Sale of Marks database is a very large store of possible combinations of alpha-numeric digits and is affected by changes in opinion, taste, judgement and belief. As a result, the potential future sales value is not recognised in the Agency's balance sheet, as it cannot be reasonably estimated.

Tangible fixed assets

The Agency revalues its fixed asset portfolio annually at 31 March each financial year in accordance with the Financial Reporting Manual. Land and buildings are revalued every five years on an existing use valuation by appointed Chartered Surveyors. In the intervening years a desktop or index linked revaluation is performed using Treasury indices. Office equipment, plant and machinery, computer equipment, motor vehicles and fixtures and fittings are revalued in accordance with price indices published by the Office of National Statistics (MM17 – Price Index Numbers for Current Cost Accounting). The exception to this is the revaluation of the specialised fit-out of buildings. These assets are revalued using Treasury indices. Surpluses and deficits arising on revaluation are taken to the Revaluation Reserve where appropriate. Permanent diminutions in the value of fixed assets are charged to the Income and Expenditure Account.

Ownership of the Agency's assets is vested in the Secretary of State.

The majority of the Agency's assets are grouped together for the purposes of capitalisation. All additions to group fixed assets are capitalised. The minimum level for capitalisation as an individual non-grouped asset is £1,000.

Depreciation and Amortisation

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

The estimated useful lives of the main categories of fixed assets are:

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

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The estimated remaining useful lives of land and buildings at 31 March 2008 are:

Agency premises	27 years
Temporary buildings	7 years

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

Operating income

Income from the sale of registration marks is recognised on receipt of payment for fixed price sales and on the fall of the auctioneer's hammer for sales at auction. Uncompleted sales are provided for after two months and are written out of sales after twelve months. Fee income from the assignment, transfer and retention of cherished registration marks is recognised on receipt, when the transaction is processed.

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

The following major sources of income Sale of Marks, Sale of Anonymised data (Vehicle and Driver) and Tachograph fees – all attract output VAT. The majority of DVLA fee bearing transactions are not subject to VAT.

Shared Service Centre

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

The centre will provide a mix of human resources, finance and payroll services to other Business Units within the Department for Transport. Extension of scope to include procurement is under consideration.

The head of Shared Services attends DVLA audit committee meetings as required and is a member of the SSC Customer Board. The Customer Board is responsible for agreeing the parameters and policies within which the SSC must operate. The Customer Board is made up of representatives from DfT(c) and the Business Units, along with the head of Shared Services and two non-executive directors.

The capital costs of setting up the Shared Service Centre have been funded through Government grants to DVLA by DfT.

In accordance with Financial Reporting Manual (FReM), the Agency credits grants received as a contribution towards the cost of a fixed asset to a government grant reserve, which is then released to the income and expenditure account over the useful economic life of the asset in amounts equal to the depreciation charge on the asset and any impairment.

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

Early departure costs

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

The Agency is responsible for 20% of the liability to former employees that took early retirement between 1 October 1994 and 31 March 1996 and met certain criteria. This liability is provided for within the early departure provision. The remaining liability is met centrally by the Civil Superannuation Vote.

For departures between April 1996 and March 1997, HM Treasury introduced capping arrangements that limit the central contribution for these departures to a maximum of £99,000 per annum. The Agency provides for the remaining liability within the early departure provision.

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

Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Tax officers pensions and compensation payments

The Agency makes payments in relation to costs of former taxation officers employed by local authorities prior to the creation of the Driver and Vehicle Licensing Centre in 1972. Certain individuals remained within the Local Government Pension Scheme. The Agency contributes to the local authorities concerned towards the annual cost of these pensions. The Agency makes compensation payments

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to 183 other individuals in respect of loss of emoluments when the Local Taxation Offices closed. A provision has been made for future costs. An actuarial valuation is carried out every three years to determine future liabilities.

Accounting for Strategic IT partnership costs

The strategic IT partner (IBM) supplies an end-to-end IT service to DVLA, including the provision of IT equipment. The risks and rewards of ownership of that equipment remain with the partner and are therefore not capitalised on the DVLA's Balance Sheet. Strategic partnership costs are charged to the Income and Expenditure account in line with the delivery of the service. The financing arrangements mean that a prepayment is set up and discounted over time by 3.5%.

Research and development

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

Government grant reserve

Grants received for capital assets are credited to the Government Grant Reserve, which is released to the Income and Expenditure account over the expected useful lives of the relevant assets.

PFI Contract

On the 4th April 2005, DVLA entered into a 20 year partnership with Land Securities Trillium, to provide the following property outsourcing solutions:

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

DVLA are invoiced on a monthly basis and this revenue expenditure is recorded as a service charge in the Income and Expenditure account.

As part of the contract, LST are carrying out a refurbishment of the Swansea HQ site. Where the work is capital in nature (air conditioning, double-glazing, lifts, and specialist cabling) the costs are capitalised and Independent Assessors sign off each floor as complete and ready for use. The air conditioning, double-glazing and lifts are depreciated over the length of the PFI contract. The cabling will be depreciated over its expected useful life of 5 years.

In addition, the construction of the Fforestfach Print Site, the fit-out of the Fforestfach Data Centre and the construction of the first phase of A Block have all been added to the PFI contract in 2007–08. The second phase of A Block is expected to be completed in September 2008. The above additions to the contract are depreciated over their respective lives in line with the Agency's depreciation policy.

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

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

Income, Costs and Surplus/(Deficit) by Activities

		2007–08			2006–07		
		Income	**Costs**	**Surplus/ (Deficit)**	Income	Costs	Surplus/ (Deficit)
Activity		**£000**	**£000**	**£000**	£000	£000	£000
Statutory Services – Fees (i)		**356,076**	**(287,713)**	**68,363**	293,229	(242,131)	51,098
Sale of Marks		**86,948**	**(14,353)**	**72,595**	87,427	(13,143)	74,284
VED Collection		**133,980**	**(133,980)**	**0**	131,255	(131,255)	0
	(ii)	**3,160**	**0**	**3,160**			
Enforcement		**81,290**	**(81,290)**	**0**	85,369	(85,369)	0
Other SLAs (iii)		**17,662**	**(24,482)**	**(6,820)**	16,053	(16,053)	0
Sub Total		**679,116**	**(541,818)**	**137,298**	613,333	(487,951)	125,382
Loss on disposal of fixed asset		**0**	**0**	**0**	0	(1)	(1)
Net interest and dividends		**0**	**994**	**994**	0	(54)	(54)
Surplus payable to Consolidated Fund		**0**	**(117,815)**	**(117,815)**	0	(115,574)	(115,574)
Total		**679,116**	**(658,639)**	**20,477**	613,333	(603,580)	9,753

(i) The surplus on Statutory Fees £68.4 million includes £44.1 million (£41.1 million 2006 –07) on the Cherished Transfer/Retention fee activities (together with Sale of Marks surplus of £72.6 million and gross interest income of £1.2 million – see Note 23) which is remitted to the consolidated fund leaving £24.3 million within DVLA.

(ii) The final Motor Vehicle Licensing Saving Stamps reimbursement from DfT was received through the VED SLA, showing a surplus for the year, but this covers previous year deficit for the scheme costs temporarily covered by Fee receipts whilst the final figures were evaluated after closure of the scheme (see Note 23).

(iii) Other SLAs include amounts received from DfT in reimbursement for expenditure incurred by DVLA in running the shared service centre (see Note 22). The Shared Service Programme costs are not shown as income, except to the extent that they represent DVLA resource cost reimbursed.

Fine Income (see Note 27) DVLA collected £47.0m in fine income in 2007/08 (£40.0m 2006/07). £47.0m (£20.5m 2006/07) was surrendered directly to HM Treasury and does not form part of the Trading Fund income. In 2006 –07 £19.5m of the fine income was used to net off invoices raised to DfT in relation to the Enforcement SLA – as provided for in the netting-off agreement with HM Treasury. There was no netting off in 2007–08 and DfT agreed an uplift to the Vote provision with HMT to restore the funding.

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Note 3. Staff costs

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

	2007–08	2006–07
	£000	£000
Salaries and wages – DVLA employees	**134,026**	126,480
Salaries and wages – Agency contractors	**1,625**	1,260
Voluntary early retirement (See Note 11)	**894**	4,198
Social security costs	**9,157**	8,638
Other pension costs	**21,786**	21,270
	167,488	161,846
Amounts recharged in respect of staff on secondment	**0**	26

The average monthly number of employees (full time equivalent) on the Agency payroll from 1 April 2007 to 31 March 2008 was 6,563 split between:

	2007–08	2006–07
Management	**1,580**	1,479
Administrative and support	**4,538**	4,740
Professional and technical	**21**	16
Seasonal staff	**424**	252
Total	**6,563**	6,487
The equivalent numbers for agency contractors were:	**30**	15

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

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Note 4. Operating Costs

	2008 £000	2007 £000
Agent Costs		
Major contracted out services (i)	**198,911**	166,903
Northern Ireland agency costs (ii)	**12,019**	12,258
PFI Estates unitary charge	**12,512**	10,486
Payments to medical practitioners	**9,108**	7,968
	232,550	197,615
Other Direct Costs		
Postal related expenses	**22,921**	20,459
Stationery and printing	**17,185**	14,046
Publicity and marketing costs	**10,366**	9,727
Maintenance	**9,695**	9,704
IT development support	**13,611**	12,067
Other IT expenditure	**6,783**	7,058
Rates	**6,977**	6,681
Rentals under operating leases	**6,957**	4,558
Travel, subsistence and hospitality	**4,697**	4,371
Telecommunications	**4,277**	3,991
Other items	**24,529**	22,702
Department for Transport costs	**1,113**	1,440
Auditors' remuneration (iii)	**292**	89
Total Operating Costs	**361,953**	314,508

(i) Major contracted out services includes business transactions with Post Office®, IBM/Fujitsu and National Car Parks Ltd. These costs include an estimated £81.6 million in respect of development costs (2006 –07 £57.6 million).

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

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

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Note 5. Dividends and Return on Capital Employed

	2008 £000	2007 £000
3.5% Return on capital employed	5,242	3,924
Less:		
Interest payable	0	(304)
Dividend Payable	5,242	3,620

The Agency's average rate of return on capital to March 2008 was 16.0% against a financial target of an average of 3.5% as stated in Annex A of the Annual Report. This dividend is limited to the annual target of 3.5%.

The average return on net assets from 1 April 2007 to 31 March 2008 was 14.0%.

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Note 6. Intangible assets

The Agency holds a perpetual software licence with Electronic Data Systems Ltd (EDS) for the right to use the driver and vehicle software. Development work undertaken by the Agency that adds value to this is capitalised, including development work undertaken by the Shared Service programme.

	Software Licence £000
Cost or Valuation	
At 1 April 2007	127,295
Additions	15,662
Disposals	(1,804)
At 31 March 2008	**141,153**
Amortisation	
At 1 April 2007	48,627
Provided during the year	12,192
Impairment	30,470
Disposals	(1,804)
At 31 March 2008	**89,485**
Net Book Value	
At 31 March 2008	**51,668**
At 1 April 2007	78,668

Intangible additions during the year of £15.7m (2006–07 £28.0m) is in respect of software under development, which is due to be completed and brought into use in future years. £30.37m of the £30.47m impairment relates to a review of the Shared Services software development costs capitalised, (see Note 22) and is released from the Government Grant Reserve.

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Note 7. Tangible assets

	Land & Buildings	PFI	Office Equipment Fixtures & Fittings	IT Equipment	Plant & Machinery, Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2007**	15,939	2,706	24,241	52,906	6,793	102,585
Additions	0	23,269	5,487	1,244	525	30,525
Asset under construction	0	0	0	1,593	533	2,126
Revaluation	872	178	1,393	(2.176)	492	759
Disposals	0	0	(4)	(1,830)	(149)	(1,983)
At 31 March 2008	**16,811**	**26,153**	**31,117**	**51,737**	**8,194**	**134,012**
Depreciation						
At 1 April 2007**	802	87	10,819	42,109	5,263	59,080
Provided during the year	440	350	2,942	3,980	458	8,170
Revaluation	0	0	726	(1,742)	373	(643)
Disposals	0	0	(4)	(1,830)	(149)	(1,983)
At 31 March 2008	**1,242**	**437**	**14,483**	**42,517**	**5,945**	**64,624**
Net Book Value						
At 31 March 2008	**15,569**	**25,716**	**16,634**	**9,220**	**2,249**	**69,388**
At 1 April 2007	15,137	2,619	13,422	10,797	1,530	43,505

**The brought forward costs/valuations reflect the asset class changes which took place on migration to Shared Services.

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Valuation of Assets

The Land and Buildings were revalued on the 31 March 2008 using indices issued by HM Treasury and prepared by the Valuation Office. The Treasury Building Index was in addition used to revalue the Private Finance Initiative assets and also specific Fixtures and Fittings assets which relate to the specialised fit-out of the Richard Ley Development Centre, the Shared Service Centre and the Contact Centre.

The net book value of land £4.5m includes Freehold £3.8m and Leasehold £0.7m (Richard Ley Development Centre £0.2m (125 year lease) and Fforestfach £0.5m (999 year lease)). The net book value of buildings £11.1m relates to DVLA property with PFI buildings/refurbishment having a net book value of £25.7m.

In line with other entities within DfT, DVLA has revalued its computer equipment assets. An element of loss on revaluation of £434,000 has been taken to the Income and Expenditure account.

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

	Financed by Operation	Financed by Govt Grant	Total
	£000	£000	£000
Depreciation of tangible Fixed Assets	8,170	0	8,170
Loss on revaluation of IT Equipment	434	0	434
Impairment of Intangible Assets (note 6)	100	30,370	30,470
Amortisation of Intangible assets (note 6)	3,673	8,519	12,192
	12,377	**38,889**	**51,266**

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Note 8. Debtors

	2008	2007
	£000	£000
Debtors: amounts falling due within one year		
Trade debtors	**1,485**	2,231
Other debtors	**221**	120
Public sector debtors	**28,054**	17,295
Prepayments and accrued income	**52,734**	31,262
PFI prepayments	**1,467**	1,090
	83,961	51,998
Debtors: amounts falling due after more than one year		
Prepayments and accrued income	**6,103**	4, 258
Total debtors	**90,064**	56,256

Included within prepayments is £20.6m (2006–07 £19.5m) in respect of a payment to the Post Office® for services to be provided in 2008–2009 plus £12.0m (2006–07 £8.2m) which relates to a service charge provided by IBM in relation to computer hardware utilised in providing services to DVLA. Both sets of payments delivered improved terms of contract but are assessed on an annual basis to ensure Value for Money before they are made.

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Note 9. Cash at bank and in hand

	2008 £000	2007 £000
Balances at HM Paymaster General's Office	**41,474**	39,173
Commercial banks and cash in hand	**4,295**	3,320
	45,769	42,493

HM Paymaster General's Office provides a current account banking service. The balance of £41.474m (£39.173m 2006–07) at HM Paymaster General's Office includes £21.657m (£10.308m 2006–07) held on behalf of HM Treasury and £5.242m (£3.620m 2006–07) due to DfT, both paid over soon after the year end (see Note 10).

Note 10. Creditors

	2008 £000	2007 £000
Creditors: amounts falling due within one year		
Trade creditors	**14,937**	7,594
Accruals	**35,864**	29,084
Dividend Payable	**5,242**	3,620
Cash balance payable to the Consolidated Fund	**21,657**	10,308
	77,700	50,606
Capital creditors	**27,185**	7,736
Total Creditors	**104,885**	58,342

The 2008 capital creditors figure (£27.2m) includes £23.9m that relates to work undertaken as part of the PFI contract.

Note 11. Provisions for liabilities and charges

	Tax Officers Pensions and Compensation payments (i)	Early Departure Costs (ii)	Voluntary Early Retirement Costs (iii)	Total
	£000	£000	£000	£000
Provision at 1 April 2007	8,279	265	15,460	24,004
Increase in provisions	(836)	14	1,716	894
Provisions utilised	(292)	(119)	(4,851)	(5,262)
Provisions at 31 March 2008	**7,151**	**160**	**12,325**	**19,636**

(i) Under the Pension Increase Act 1971 the Agency has a liability to contribute to the pensions of ex-local taxation office staff who were employed on driver and vehicle licensing work before the creation of the Driver and Vehicle Licensing Centre. Under the Vehicle and Driving Licence (Compensation to Officers) Regulations 1977, the Agency makes compensation payments to local authority staff in respect of loss of emoluments when the Local Taxation Offices closed. These payments are not discounted due to the uncertainty of the timing of the transfer of benefits. The provision is based on advice from the Government Actuary Department (GAD), which is re-assessed normally every three years.

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

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

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Note 12. Analysis of changes in net funds

	At 1 April 2007 £000	Cash Flow £000	**At 31 March 2008 £000**
Cash in hand at bank	42,493	3,276	**45,769**
Total	42,493	3,276	**45,769**

Note 13. Reconciliation of net operating expenditure to net cash flow from operating activities

	2008 £000	2007 £000
Net Surplus on ordinary activities	**137,298**	125,382
Operating surplus		
Adjustment for items not involving the movements of funds		
Depreciation charge	**51,266**	15,903
Release of Government grant	**(38,889)**	(4,306)
Impairment of in year asset	**(100)**	0
Movement in working capital		
Increase in debtors	**(23,439)**	(5,801)
Increase in creditors	**15,260**	2,799
Decrease in provisions	**(4,368)**	(1,871)
Net cash inflow from operating activities	**137,028**	132,106

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Note 14. Movements in Capital and Reserves

	Public Dividend Capital £000	Government Grant Reserve £000	Revaluation Reserve £000	Retained Surplus £000	Total £000
At 1 April 2007	**19,048**	**52,680**	**4,641**	**62,207**	**138,576**
Movement in the year					
Revaluation of fixed assets	0	0	1,836	0	1,836
Release – Impairment	0	(30,370)	0	0	(30,370)
Release – EVL Depreciation	0	(4,170)	0	0	(4,170)
Release – SSC Depreciation	0	(4,349)	0	0	(4,349)
Surplus for the year	0	0	0	20,477	20,477
Grant received	0	10,368	0	0	10,368
At 31 March 2008	**19,048**	**24,159**	**6,477**	**82,684**	**132,368**

Total release from Government Grant Reserve during the year is thus £38.889m.

Note 15. Commitments

	2008 £000	2007 £000
Capital Commitments	**3,080**	1,693

This includes £3.08m (2006–2007 £1.2m) in respect of capital commitments under the PFI agreement with Land Securities Trillium.

Note 16. PFI

	2008 £000	2007 £000
PFI Financial commitments due:		
Expiry dates within one year	**0**	0
Expiry dates between one and five years	**0**	0
Expiry dates beyond five years	**19,234**	12,771
	19,234	12,771

Note 17. Operating leases

Commitments due on existing operating leases are:

	2008 £000	2007 £000
Land and Buildings		
Lease expiry dates within one year	**668**	663
Lease expiry dates between one and five years	**1,694**	1,369
Leases with expiry dates beyond five years	**3,565**	3,990
	5,927	6,022

	2008 £000	2007 £000
Other		
Lease expiry dates within one year	**49**	106
Lease expiry dates between one and five years	**130**	162
Leases with expiry dates beyond five years	**0**	0
	179	268

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Note 18. Related parties

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

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

In addition, the Agency has had a significant number of material transactions with other government departments and central government bodies. Most of these transactions have been with Driving Standards Agency, Department for Transport and Post Office®.

Mr J Forshew, an associate partner for IBM Business Consultancy services, was a member of the Executive Board until January 2008 and as such this could have created a related party relationship between IBM and DVLA. However, during 2007–08, the board comprised no fewer than nine members and as a result, at no time during the year did Mr Forshew have a significant influence over decisions taken by the Board. Accordingly, the value of transactions between DVLA and IBM Business Consultancy Services is not separately disclosed.

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

Note 19. Losses and abandoned enforcement cases

	2008 Number of cases	**2008 £000**	2007 Number of cases	2007 £000
Losses written off in year	**10,574**	**60**	10,186	192

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

Abandoned enforcement cases	**115,970**	**4,945**	121,982	5,578

These are mitigated penalties offered in lieu of prosecution for vehicle excise duty evasion that are waived mainly owing to notices unable to be served, out of time court cases, liquidation and so on.

Special Payments

Other ex-gratia payments	**1,636**	**162**	1,541	142

Note 20. Pension costs

Pension benefits are provided through the Principal Civil Service pension scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

Classic scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at the rate of half the members' pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Premium scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and provides a service enhancement on computing the spouse's pension. The enhancement depends on length in service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

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Classic plus scheme

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

The PCSPS is an unfunded multi employer defined benefit scheme, but the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out by scheme actuaries Hewitt Associates at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office. For 2007–08, normal employer contributions of £21,793,274 were payable to the PCSPS to date (2006–07 £21,269,703) at an average rate of 18.21% (2006–07 19.00%). Rates will remain the same next year subject to changes in the salary bands. The average pension contribution rate had risen because of the change in staff mix. The Government Actuary reviews employer contribution rates normally every four years following a scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme.

Partnership pension account

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

Note 21. Financial Instruments

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

Financial assets:
The fair values of the Agency's financial assets and liabilities as at 31 March 2008 are as follows:

	2008	2007
	£000	£000
Financial assets:		
Cash at bank and in hand	45,769	42,493

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

Financial liabilities:
The only significant liability held by the DVLA is in respect of its short-term creditors.

b) Interest rate risk
The Agency is not exposed to an interest rate risk.

c) Foreign currency risk
Except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and foreign currency is not held to manage the risks facing the Agency in undertaking its activities.

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

As permitted by FRS 13, debtors and creditors which mature or become payable within twelve months from the balance sheet have been omitted from the profile.

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Note 22. Shared Service Centre

The Shared Service Centre operates as a Directorate of DVLA, but supports other Business Units within DfT. The SSC has been operational for DSA and DVLA since April 2007 and started to provide live service to DfT(c) during April 2008. The DfT Board have deferred MCA migration, originally planned also for April 2008 until October 2008. The income and costs for the SSC are "ring-fenced" within the DVLA ledgers, but they are presented within the overall Income and Expenditure figures without separate disclosure

The figures below present the trading position for the period.

Memorandum Income and Expenditure		**2008**	2007
		£000	£000
Operations			
Income			
DVLA – SSC live running recharge	1	3,000	0
DSA – SSC live running recharge	2	1,500	0
DfT – Initial subsidy during DfT Family migration	3	7,284	2,347
DfT – Capital depreciation cover (DEL Non-cash)	4	4,349	0
		16,133	**2,347**
SSC Running Costs			
Salaries		5,234	1,357
IT Running Costs		4,483	195
SSC Overhead Admin Costs		1,068	0
Other costs (incl. Estates, support & Corp Ass)		999	795
Depreciation		4,349	0
	5	**16,133**	**2,347**
DfT SS Programme Costs			
Income			
DfT – SSC Programme development reimbursement		8,878	13,973
DfT – Capital Grant received		10,368	25,866
		19,246	**39,839**
Costs			
Salaries for SSTP staff		1,849	3,124
Systems development external costs		19,784	33,472
Other		1,433	3,243
	6	**23,066**	**39,839**

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Notes

1. DVLA transaction support functions are covered through cross-charging within DVLA accounts.
2. DSA are invoiced on the basis of Trading Fund to Trading Fund full cost recharging.
3. DfT are invoiced by DVLA on an agreed basis to cover the elements of planned spare capacity in advance of take on of the other business units and agreed in advance to ensure that DVLA and DSA cover only the apportioned real charges of service delivery.
4. The depreciation on the assets held in DVLA accounts is handled through charges against the Government Grant Reserve, with DEL handling managed through the DfT Non-Cash cover.
5. The costs are all included within the overall DVLA costs (hence appear within the costs in Note 2) and segregated within the ledgers through cost centre analysis.
6. The DfT Programme Costs are not fully recovered in-year for two reasons – there is a timing difference in the budgeting and allocation by DfT when compared to the accrual made in 2006–07 by DVLA and DVLA absorbed the Phase 5 Programme overspend as agreed with DfT as part of the "fixed budget" for delivery of go-live between October 2006 and June 2007.

Carrying Value of Shared Service Centre Assets within DVLA Balance Sheet

The assets purchased for the Shared Service programme have been financed by Capital Grants from DfT and the value is included within the DVLA asset register and its balance sheet as follows:

	SSC Fit Out	Hardware	Software Configuration	Total
	£m	£m	£m	£m
Total assets purchased to date	0.5	5.3	33.8	39.6
Depreciation to Date	0.0	(0.9)	(3.4)	(4.3)
Net Book Value at 31/03/2008	0.5	4.4	30.4	35.3
Impairment Recognised at 31/03/2008	0.0	0.0	(30.4)	(30.4)
NBV in Year End Balance Sheet	0.5	4.4	0.0	4.9

The capitalisation of expenditure is in line with DVLA (and DfT Group) accounting policies. At the end of 2007–08, DfT management engaged in a review of the benefits forecast from the Shared Services initiative. Because of the uncertainties in the initiative arising from delays in phases of the implementation, potential scope changes to reflect the involvement of VOSA and HA, together with the level of benefits estimated from the introduction of delivery of procurement by the DfT Shared Services Programme, the conclusion was reached that there was uncertainty over the estimated profile of the delivery of future benefits underpinning the carrying value of the software configuration capitalised.

Given these uncertainties at the balance sheet date, DVLA recognises the downward revaluation of the carrying value of previously capitalised amounts through the impairment of the asset values within its balance sheet, as presented above. As the amounts capitalised were financed through DfT Grant, DVLA (in accordance with SSAP 4 *Government Grants* as an "arm's length" Trading Fund) recognised the impairment through the elimination of the compensating carrying amount from the Government Grant Reserve. This does not, therefore, result in a charge to the DVLA Income & Expenditure Account.

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Note 23. Motor Vehicle Licence Savings Stamps

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

Since becoming a trading fund on 1 April 2004, DVLA has funded the running of the scheme covering both its own costs as well as those of the Post Office® during the transition year of 2005–06. The costs of running the scheme up to 31 March 2008 amounting to £3.16m were recovered, as stipulated by HM Treasury, from the Department for Transport during 2007/08 and are included in the VED Collection SLA income (see Note 2). This treatment allows repayment into the Fee Account as required by guidance.

From 1 April 2006 until 26 March 2008, the cash funds representing unredeemed stamps were held in an interest bearing account. The interest earned (£1.2m) has been paid over to HM Treasury as a Consolidated Fund Extra Receipt. At 31 March 2008 the balance of funds remaining, amounting to £4.8million was held in a non-interest bearing account with HM Paymaster General's Office. This cash balance, and the associated creditor balance representing amounts owed to stamp holders, are excluded from the Balance Sheet presented on page 81.

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Note 24. Intra-government balances

Balances with:	**31.03.08 £000 Debtors**	**31.03.08 £000 Creditors**	31.03.07 £000 Debtors	31.03.07 £000 Creditors
Central government bodies	**44,107**	**26,569**	18,603	23,621
Local authorities	**97**	**0**	0	0
Public corporations and other trading funds	**22,153**	**0**	20,280	0
Total Intra-government balances	**66,357**	**26,569**	38,883	23,621

Note 25. Contingent Liabilities

At 31 March 2008, there is one contingent liability to note: DVLA has agreements with IBM in terms of future service payments for new systems developments that could crystallise if the contract is not renewed in September 2012. At the end of the financial year, the exposure was approximately £15.2m but this is anticipated to decrease as the services are received in the period to contract renewal.

Note 26. Post Balance Sheet Event

There have been no events since the balance sheet date that impact on the understanding of these financial statements. The financial statements were authorised for issue on 21st July 2008.

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Note 27. Fine Income Remitted to HM Treasury

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

Source	Fine Income in £m 2007–08	Fine Income in £m 2006–07
Continuous Registration	26.3	24.5
Traditional Enforcement	11.4	11.1
Wheelclamping	7.3	4.4
Debt Collectors	2.0	0.0
Total	**47.0**	**40.0**

DVLA and HM Treasury have also agreed special payment arrangements for debt collectors. Their commission is paid from the fine income that they collect and the net amount is remitted to HM Treasury.

Debt Collection	£m
Total amount collected	2.7m
Commission paid to Debt Collectors	0.7m
Amount transferred to Treasury	2.0m

Annex A

Driver and Vehicle Licensing Agency Trading Fund

Treasury minute dated 22 April 2004

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

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

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

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

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

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

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

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

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

I certify that I have audited the Vehicle Excise Duty (VED) Account financial statements for the year ended 31 March 2008 under the Section 2 of the Exchequer and Audit Departments Act 1921. These comprise the Statement of Revenue and Expenditure, Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions made thereunder. I also report whether in all material respects the revenue and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I report to you whether in my opinion, the information related to the VED Account given in the Annual Report, which comprises Directors' Report, Management Commentary and unaudited part of the Remuneration Report, is consistent with the financial statements.

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

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

I read the other information contained in the Annual Report related to the VED Account and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, the Management Commentary and unaudited parts of the Remuneration Report. I consider the implications for my opinion and report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

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Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by HM Treasury, of the state of the Driver and Vehicle Licensing Agency's affairs as at 31 March 2008 in respect of the revenue and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by HM Treasury; and
- Information given within the Annual Report, which comprises Directors' Report, Management Commentary and unaudited parts of the Remuneration Report, is consistent with the financial statements:

Audit opinion on regularity

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

Report

My report on the VED Account is at pages 122 to 128.

T J Burr
Comptroller and Auditor General

National Audit Office
157–197
Buckingham Palace Road
Victoria
London
SWIW 9SP

18 July 2008

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VED Account for the year ended 31 March 2008

Statement of Revenue and Expenditure for the year ended 31 March 2008

	Notes	2008 £m	2007 £m
Revenue			
Vehicle Excise Duty raised	2	**5,269**	4,984
Total Revenue		**5,269**	4,984
Expenditure			
Payments to HM Revenue and Customs	3	**(3)**	(1)
Amounts written off	4	**(2)**	(3)
Total Expenditure		**(5)**	(4)
Net Revenue for the Consolidated Fund		**5,264**	4,980

Cash Flow Statement for the year ended 31 March 2008

	2008 £m	2007 £m
Net Funds as at 1 April	**18**	12
Net revenue for the Consolidated Fund (see above)	**5,264**	4,980
Increase in Liabilities	**150**	135
Net Cash Flow from Revenue Activities	**5,414**	5,115
Cash paid to Consolidated Fund	**(5,397)**	(5,109)
Increase in Cash in this period	**17**	6
Net Funds as at 31 March	**35**	18

Notes forming part of these accounts appear on pages 117 to 121.

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Balance Sheet as at 31 March 2008

	Notes	**31.03.2008**	31.03.2007
		£m	£m
Current Assets			
Debtors	5	**2**	2
Cash at bank, in hand and in transit	6	**35**	18
Total Current Assets		**37**	20
Current Liabilities			
Deferred income	7	**(2,469)**	(2,325)
Creditors	7	**(12)**	(6)
Total Current Liabilities		**(2,481)**	(2,331)
Total Net Liabilities		**(2,444)**	(2,311)
Represented by:			
Balance on Consolidated Fund Account as at 31 March 2008	9	**(2,444)**	(2,311)

Notes forming part of these accounts appear on pages 117 to 121.

Noel Shanahan
Chief Executive & Accounting Officer

14 July 2008

Notes to the VED Account

Note 1. Statement of Accounting Policies

1.1 Basis of Accounting

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

1.2 Accounting Convention

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

1.3 General Accounting Policies

1.3.1 Revenue

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

1.3.2 Business Accounts

The following transactions are accounted for in the Business Accounts (see pages 80 to 110) and are covered by its related accounting policies:

a. Fines and Penalties (fines collected by the Civil Courts are paid to the Ministry of Justice)

b. Fixed Assets

c. Losses and abandoned enforcement cases

d. Cost of collection and enforcement of VED

1.3.3 Bad and Doubtful Debts

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

1.3.4 Evasion

The costs of VED evasion are outside the scope of the Vehicle Excise Duty Account. Evasion is discussed more fully in the Management Commentary, at pages 45 to 55.

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1.3.5 VED Exemption

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

1.3.6 Related Party Disclosure

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

1.3.7 Deferred Income

Deferred income in respect of the Post Office®, EVL and Fleets is based on the data collected at source using the period of the Vehicle Excise Duty licence purchased. Deferred income in respect of Local Offices is based on the licensing renewal pattern for the Post Office®. Deferred income in respect of Motor Manufacturers is based on an extrapolation from an annual sampling exercise. Management estimate the level of error arising from this approximation to be de minimus. A proportion of the deferred income balance will be claimed as a refund of duty during 2008–09. The value of refund for 2007–08 is set out in note 2.

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

	2008	2007
	£m	£m
Over the Counter		
Post Office®	**3,469**	3,982
Local Offices	**396**	402
Sub Total	**3,865**	4,384
Electronically		
Electronic Vehicle Licensing	**1,232**	452
Motor Manufacturing	**319**	289
Fleet Operators	**101**	94
Telephone Relicensing	**1**	1
Sub Total	**1,653**	836
Amounts refunded	**(249)**	(236)
Total	**5,269**	4,984

The way in which transactions are being processed is changing significantly, with a major shift from face to face to electronic channels (please refer to the Management Commentary pages 42 to 44 for further details).

Note 3. Payments to HM Revenue and Customs – Shipbuilders Relief

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

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

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

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

During 2007–08 DVLA made payments to HMRC of £2.541m (£0.974m in 2006–07).

Note 4. Amounts Written Off

	2008	2007
	£m	£m
Amounts written off	**2**	3

Amounts written off include:

- £0.694m for cases where the Agency is unable to trace the offender (£1.337m in 2006–07);
- £0.890m for cases of successful prosecutions in court where the revenues were collected by the Home Office (£1.059m in 2006–07); and
- £0.445m where the applicant returned the VED licence disc and this was voided (cancelled) (£0.575m in 2006–07).

A provision of 20% is made for doubtful dishonoured cheque cases resulting in a movement of £0.298m in 2007–08 (£0.139m in 200–07). This is based on previous trends.

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Note 5. Debtors

	2008	2007
	£m	£m
Motor Trade Debtors and Other Debtors	**2**	2

Debtors include:

- Motor trade debtors (Automated First Registration & Licensing (AFRL) dealers) for 2007–08 were nil (£0.02m in 2006–07)
- Other debtors include dishonoured cheque debtors of £2.0m (£1.8m in 2006–07), which are shown net of a provision for doubtful debts
- Other sundry debtors of £0.061m (£0.053m in 2006–07).

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

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

	2008	2007
	£m	£m
Cash at bank, in hand and in transit	35	18

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

Note 7. Creditors

	2008	2007
	£m	£m
Deferred Income	**2,469**	2,325
Motor Trade Creditors	**12**	6
	2,481	2,331

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

Vehicle Excise Duty is paid in advance. The deferred income balance relates to income received in 2007–08 for Vehicle Excise Duty which relates to 2008–09.

Note 8. Exemptions

Some vehicles are exempt from Vehicle Excise Duty. These are categorised and are shown below at summary level. An estimated value has been attributed to the average volumes of exempt vehicles held on the Vehicle Register during 2007–08.

Exempt Category	**PLG**	**HGV**	**Others**	**Total 2007–08**	**Total 2006–07**
	£m	£m	£m	**£m**	£m
Vehicles exempt from holding a VED licence*	14	5	12	**31**	42
Vehicles issued with a nil value licence**	212	5	18	**235**	235
Former Special Concessionary Group***	2	3	43	**48**	73
Total	228	13	73	**314**	350

*   These include ambulances, fire engines and crown vehicles
**   These include disabled vehicles and historic vehicles
***   These include agricultural vehicles

In addition, it is estimated that some 5.7m vehicles pass through the trade each year. The average number of vehicles registered as SORN during 2007–08 was 1.6m (1.7m in 2006–07). Vehicles held in the trade and vehicles registered as SORN are not liable to VED.

Note 9. Balance on Consolidated Fund Account

	2008	2007
	£m	£m
Balance as at 1 April 2007	**(2,311)**	(2,182)
Net Revenue for the Consolidated Fund	**5,264**	4,980
Less amount paid to Consolidated Fund	**(5,397)**	(5,109)
Balance on the Consolidated Fund Account as at 31 March 2008	**(2,444)**	(2,311)

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The Comptroller and Auditor General's Report on the VED Accounts 2007–08

Background and Opinion

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

2. Whilst recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, the National Audit Office's work in 2007–08 provided assurance that the Agency has framed adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of VED and that they were being duly carried out.

3. There were no significant changes in regulations and procedures during 2007–08. Important new regulations enabling enforcement on certain non-public property come into force in the autumn of 2008, and from January 2009 there will be new regulations governing refunds of VED.

Summary of Main Findings and Conclusions

4. On the basis of the June 2007 roadside survey, the Department estimated evasion in 2007–08 of some 1.7 per cent in the vehicle stock, which translates into 1.5 per cent (£79 million) in value. Changes in the way data was collected and checked meant that this estimate of evasion cannot be compared with earlier years' estimates so no conclusion can be drawn purely from the series of annual roadside surveys as to whether evasion is increasing or decreasing. Nor can the estimate be used to show whether the Department and the Agency achieved their targets which were related to bases for earlier periods.

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5. The Department and the Agency are conducting a review of the existing enforcement strategy which aims to bring together research, intelligence and targeted action plans. The aim is to tackle those unlicensed vehicles that are associated with crime-related activities, so that a formal numerical target for reduction in that class of offender is no longer needed. The effectiveness of this strategy will be assessed in future periods.

6. Our report on the 2006–07 VED accounts noted that people could renew their licences late to avoid paying a month's duty without risk of penalty. The Agency estimated for September 2007 that some 67,000 people abused the system in this way. If that was a typical month, VED evaded would amount to over £10 million per year. In 2008, the Agency started a trial in which it sent warning notices after a month to some vehicle keepers who had not paid. The trial had not concluded by July 2008. Extending this approach could reduce the number of people receiving Late Licensing Penalty notices after two months but it would not deal with those evading one month's VED.

7. In 2006 and 2007, the Agency trialled the use of debt collectors to pursue some of the 1.2 million Late Licensing Penalties issued automatically each year. It continued to use the County Court service for 2006–07 but not in 2007–08, apart from a few residual cases. During 2007–08, some 510,000 penalties were paid but there was a gap before the appointment of debt collectors under new contracts and so 587,000 penalties that were not paid were not pursued, compared with 491,000 in the previous year. The Agency should now be able to increase significantly the number of cases pursued through the new debt collection contracts and to address the cases neglected during the interim period through these contracts.

8. The bases for measuring and targeting evasion of VED from 2008–09 onwards, combined with a more informed and intelligence led enforcement approach, should help the Department and the Agency to focus their efforts to better effect.

Recommendations

9. The Department and the Agency should maintain meaningful and robust links between evasion targets and measures of achievement. They also need to be alert to early signs of changes in evasion behaviours that risk losses for the Exchequer and damage to the reputation of the VED enforcement regime.

10. Beside reminder letters to people who have not renewed their licences after one month, the Department and the Agency should monitor levels of evasion of one month's VED. If such evasion persists, they should seek changes to

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the regulations to modify the Continuous Registration system, so they can impose Late Licensing Penalties on owners who miss one month's tax.

11. The Agency should reduce the numbers of unpaid Penalty cases that are not pursued in any way, using the debt collection agencies if they continue to prove effective.

Evasion Estimate based on the annual Roadside Survey 2007

12. The Department commissions annual roadside surveys of a statistically significant number of vehicles each June to provide a basis for estimating the level of VED evasion by unlicensed vehicles. It applies statistical weightings to the results to estimate evasion in the overall stock of vehicles and the VED revenue loss.

13. Pages 6 and 16 of the Annual Report describe the results of the annual roadside survey for 2007 which suggest a level of evasion of some 1.1 percent on the road, equating to 1.7 per cent in the vehicle stock and some 1.5 percent (£79 million) in value for 2007–08. For the first time most of the survey data was collected using Automated Number Plate Recognition (ANPR) technology and could be checked rigorously. The results have called into question the validity of previous years' estimates of evasion. Thus the 2007 estimate of evasion cannot be compared meaningfully with earlier years' estimates and no conclusion can be reached as to whether VED evasion is increasing or decreasing.

14. Targets, including Gershon efficiency targets, for the reduction of VED evasion up to 2008 were set in relation to estimates made in earlier periods, particularly the results of the roadside survey of 2002. That survey, and those for 2004 to 2006, collected data largely without ANPR technology and could not be rigorously checked, particularly for incorrectly read number plates. The roadside survey for 2007 remedied these shortcomings and provided more robust handling of the data. Hence the 2007 evasion estimate cannot be used to show whether the Department and the Agency achieved the evasion rate target or the associated Gershon efficiency target for reducing loss of revenue by £70 million per year by 2008.

15. Data on motorcycles in the 2007 roadside survey could not be gathered by ANPR and were thus subject to error and uncertainty arising from the traditional manual method of data gathering. However, in 2007 the evasion estimate for motorcycles was no longer subject to contamination of motorcycle data by misread car number plates. As a result, the 2007 results produced an estimate of evasion for motorcycles of 9.8 percent, much lower than previous years' estimates but still more than the estimate for other

vehicle types. The Department intends, from 2009, to base roadside surveys on camera images for motorcycles as well as for other vehicles. Only then will it feel fully confident in the results and possible trends in evasion statistics for motorcycles.

New Targets for Evasion and Enforcement

16. The Secretary of State set a new target for 2008–2011 to collect £100 million of VED over those three years through direct enforcement action. This target will be measured by monthly scans of the Agency's vehicle register to identify vehicles re-licensed following enforcement action. Demonstration of achievement of the main target for VED will thus no longer depend upon the results of the roadside survey. The focus and extent of the Agency's enforcement activity has in any case only partly been driven by the roadside survey results as it has monitored a number of performance indicators produced monthly, calculated from its own ANPR results, numbers of Late Licensing Penalty (LLP) letters and financial measures. These indicators and measures are not independent or fully objective but they have allowed the Agency to monitor evasion levels on an ongoing basis rather than rely purely on retrospective measures to manage its enforcement activities.

17. The Agency also has a strategic aim of working in partnership with the police, local authorities and other stakeholders to keep evasion in traffic below 2.5 per cent over the period 2008–2011. Further detail of targets is included in the Annual Report.

18. The 2007 roadside survey results call into question whether the target of collecting an additional £100 million over three years is achievable, as there is seemingly a much reduced pool of evaders to target compared to the previous higher estimate of evasion. The aim of keeping evasion below 2.5 per cent does not seem a challenge as evasion is estimated to be well below this level already. But the Department for Transport believes that it would be premature formally to review the targets until a second year's worth of roadside survey data is available in late 2008–09.

Understanding Evasion and Future Strategy

19. There is a need for research and better understanding of vehicle owners' behaviours in relation to VED evasion and licensing, to help tackle specific risks including:
    - motorists who avoid paying VED for one month when renewing their licence, without risk of penalty;

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- VED licensing legislation and systems do not address sufficiently retrospective licence cover when a vehicle keeper re-licenses late;
- motorists using false, often stolen or cloned, number plates to avoid congestion charging and other ANPR enforcement; and
- use of a vehicle on the road when the keeper has declared the vehicle to be off the road (SORN offences).

20. The Agency is planning to develop a detailed tool that will track VED evasion trends and distinguish between evader types. It believes that this tool will help them to understand the behaviour of evaders and the enforcement tools that are most likely to induce compliance. Work is also in hand to carry out market research among previous motorcycle VED evaders to identify the influences and barriers to compliance.

21. Other sources of information could contribute to evasion estimates, including those held by police forces and other agencies that increasingly use ANPR cameras to capture data on vehicle movements. However, the Agency has yet to develop a formalised strategy for sharing intelligence with other agencies about patterns and trends amongst evader types.

Licensing Gaps

22. As our report in 2007 described, some licence payers avoid a month's VED without being subject to a penalty. The Agency issues Late Licensing Penalties of £80 (reduced to £40 if paid within 28 days) but not until two months after expiry of the previous licence. Hence a vehicle keeper who obtains a licence starting one month after the previous one expired does not get a penalty notice. There is a risk of being caught on the road without a licence during this period but motorists may regard it as remote.

23. The Agency reviewed September 2007 licence renewals and found that 67,000 vehicles avoided paying for one month's VED in this way, without risking a Late Licensing Penalty. The Agency has not repeated this exercise to gauge whether it represents behaviours typical across the year or to identify trends. However, there is no reason to believe that September was an atypical month and it indicates that VED evasion of this type could amount to over £10 million per year.

24. To address evasion of one month's VED, the Agency started a trial in 2008 in which 5,000 warning notices were sent to vehicle keepers who had neither re-licensed nor made a SORN declaration for one month from the expiry of their last vehicle licence. Any renewals resulting from those warning notices will be effective only from the start of the

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second month at the earliest. The Agency will use the responses to inform future policy in this area. It had not completed the analysis of the results of the trial by July 2008.

25. Extending this approach could reduce the number of people receiving Late Licensing Penalty notices after two months, but it would not deal with those evading one month's VED. Hence we recommend that the Department and the Agency should monitor the level of evasion of one month's VED and if such evasion persists, they should seek changes to the regulations to modifying the Continuous Registration system so they can impose Late Licensing Penalties on owners who miss one month's tax.

Use of the County Court and Debt Collectors to pursue Late Licensing Penalties

26. In previous years the Agency enforced collection of the Late Licensing Penalties in part through the civil court system. Since 2005–06 it has progressively moved to the use of debt collection agents as the civil court system proved cumbersome and expensive to use with results of limited effectiveness. Only a few residual cases went to the court in 2007–08. A pilot of three debt collection agents in 2006 and 2007 proved their effectiveness and the case for using such agents on a wider scale. On the basis of initial results and in anticipation of the debt collector pilots being evaluated as successful, the Agency stopped routinely referring cases to the court process in April 2007. However, the formal procurement process for the debt collection contracts was not initiated until the completion of the pilot and its evaluation. There was therefore a gap from August 2007 to February 2008 when no cases were referred to debt collection and the Agency did not enforce collection of unpaid penalties at that time. An increasing range of debts are now referred to the debt collection agencies and the DVLA finds them effective in enforcement. The Agency sends in the region of 40,000 cases per month under the new contracts, including some selected from the period before the new contracts, so the annual volume of unpaid cases pursued will be significantly higher than in previous years.

27. The following table shows the outcome of Late Licensing Penalties issued during the last three years.

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	2005–06		2006–07		2007–08	
	cases '000	Proportion of Notices issued	cases '000	Proportion of Notices issued	cases '000	Proportion of Notices issued
Late Licensing Penalties issued	1,279		1,272		1,219	
Of which Paid without further action	444	35%	399	31%	473	39%
Pursued to Court	216	16%	108	8%	7	0.6%
Of which Paid	21	2%	29	2%	7	0.6%
Cases sent to debt collectors	N/A	N/A	274	22%	159	13%
Of which Paid	N/A	N/A	58	5%	37	3%
Penalties Not Paid and not Pursued	619	48%	491	39%	587	48%

Source: Data provided by DVLA

28. In 2007–08, the Agency issued 1,219,000 Penalties, of which over 732,000 were unpaid and only 166,000 were pursued. Some 587,000 were not paid and were not pursued, compared with 491,000 in the previous year. The Agency should reduce the numbers of unpaid Penalty cases that are not pursued in any way, using the debt collection agencies if they continue to prove effective.

T J Burr
Comptroller & Auditor General

18 July 2008

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

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

2. The Business Account shall be prepared so as to give a true and fair view of the state of affairs as at 31 March 2006 and subsequent financial year-ends and of the income and expenditure, total recognised gains and losses and cash flows for the financial year then ended. The Business Account shall also be prepared so as to provide disclosure of any material income or expenditure that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

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

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

5. When preparing the Vehicle Excise Duty Account, DVLA shall have regard to the guidance given in the attached Appendix to this Direction.

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DVLA shall also agree the format of the supporting notes (including the accounting policies relating to revenue recognition, evasion and exemption) with HM Treasury. Regard shall also be given to all relevant accounting and disclosure requirements given in *Government Accounting* and other guidance as issued by HM Treasury, and the principles underlying UK Generally Accepted Accounting Practice.

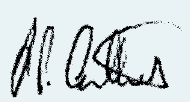
6. Evasion is outside the scope of the Vehicle Excise Duty Accounts and shall not be included in the statement of revenue and expenditure, balance sheet, cash flow statement or notes. This fact should be disclosed in an accounting policy note with reference to the Management Commentary for further disclosure.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

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

8. The Business Account, together with the Vehicle Excise Duty Account, shall be transmitted to the Comptroller and Auditor General for the purpose of his audit examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament set for the relevant year.

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

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



Ian Carruthers
Director, Government Reporting,
HM Treasury

25 April 2006

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Appendix

Driver and Vehicle Licensing Agency

Vehicle Excise Duty Account for the year ended 31 March 2008

The Vehicle Excise Duty Account shall include:

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

The Notes shall include among other items:

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

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

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

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office.
ID5861621 08/08
Printed on Paper containing 80% recycled fibre content minimum.

TSO

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

Online
www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail
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Printed on recycled paper containing
80% post-consumer waste (text and cover)
Design and Print: Printing and Corporate Standards Group (PCSG), DVLA, Swansea

ISBN 978-0-10-295714-3