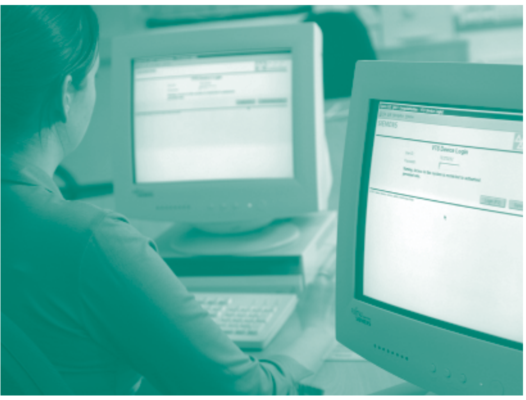
VOSA
Vehicle & Operator Services Agency





Annual Report and Accounts
2005/2006

Vehicle and Operator Services Agency

Annual Report and Accounts 2005/06

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Highlights of 2005/06

- Completed roll-out of **MOT Computerisation**
- Increased MOT **customer satisfaction**

- Four **testing stations refurbished**
- Latest **testing equipment** installed

- Roll-out of **Mobile Compliance Device** enabling better enforcement
- Successful **overloaded vehicles operation** with **Highways Agency**

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Chief Executive's Statement

Stephen Tetlow
Chief Executive

I am pleased to report on another successful year for VOSA. It has been an exciting and demanding period of change during which we have embraced new technology, organised ourselves to deliver more effectively and taken on new work. We have performed well against our Key Targets with particular successes through the delivery of MOT Computerisation, more effective targeting of enforcement and improved customer services.

The successful roll-out of MOT Computerisation to 18,300 garages has been a major achievement. While there have been a few problems on the road to delivery of this major programme, the system has been well received and is starting to realise the many benefits to both the trade and the motorist such as consistent testing, reduced opportunity for fraud, and simplified administration. It has also enabled online vehicle re-licensing with DVLA. A new booking system for tests at our stations has been introduced internally but we have delayed the online service pending resolution of performance and resilience issues. Improved customer services have also been delivered through expansion of the Operator self-service system which took another e-Government national award this spring, recognising delivery of better regulation.

Technology has enhanced our ability to target further our enforcement activity with a successful pilot of cameras and in-road weighing sensors, as well as roll-out of hand-held devices providing our examiners with real-time data at the roadside. Adding these to widely police-accredited Power to Stop and increased intelligence capability has meant a reduction in the checking of known compliant operators and an increase in our ability to target the serious and serially non-compliant vehicles, drivers and operators. We have continued to develop initiatives with other agencies and European colleagues to help make our roads safer and journeys more reliable.

Improved services and effective regulation also need to be delivered efficiently and we have achieved Value for Money targets this year which include reduced headcount and operational cost savings. At the same time, we have continued to deliver investment in the business, particularly in the modernisation of our estate and testing equipment.

A key factor of our achievements these past months has been, more than ever, that of working effectively together, whether internally - staff and unions, or externally - Traffic Commissioners, Trade Associations, other government units and, of course, our customers. Without the commitment of people to make it work, our change and service delivery would not have been so successful. I take this opportunity to thank everyone for their effort and support and I look forward to the challenges of the future that have been provided by the successes of this past year.

Introduction

About this report

This annual report accounts for the performance of the Vehicle and Operator Services Agency (VOSA) from 1 April 2005 until 31 March 2006 and publishes the Agency's statutory financial statements. It is the principal means for formally reporting to ministers and Parliament.

The activities reported against were laid out in the VOSA 2005/06 Business Plan, with the business priorities linked to the following four business objectives:

- to raise the compliance of the road haulage and passenger transport industries with licensing, roadworthiness, road traffic and environmental regulations and standards;
- to improve the roadworthiness and environmental standards of private motor vehicles, and to contribute to the reduction of vehicle-related crime;
- to work with DVO Group members and other partners to provide customers with a choice of modern, accessible and user-friendly services; and
- to run an efficient, effective, continually developing and valued business, equipping our staff to make the best use of available technology, skills and knowledge.

We serve: the Department for Transport as owner of the Agency; Traffic Commissioners; trade associations; vehicle owners and operators; MOT garages; vehicle manufacturers; importers and amateur vehicle builders; the media; the general public; members of other organisations interested in the Agency's work; VOSA staff and VOSA unions.

The report has five further sections:

- a narrative report on performance for the year relative to our 2005/06 Business Plan. This includes our performance against Secretary of State Key Targets.
- Directors' Report
- Management Commentary including a Forward View
- Remuneration Report
- Annual Accounts.

Performance against Secretary of State Key Targets

Our performance is reflected within our Secretary of State Key Targets. These are agreed with the Minister and are the primary measure of our performance, monitored throughout the year.

We achieved 8 of our 9 Key Targets as shown in the summary below. Detail of our performance against the Targets and measures can be found throughout the rest of this section of the report.

	BETTER CUSTOMER SERVICES	Result
1	**To improve the availability of tests to meet customer needs better (see page 7)**	Achieved
	• 95% of HGV and PSV test appointments within 15 days (see page 7)	Achieved
	• Market research of customer requirements for test availability and trialled key requirements (see page 8)	Achieved
2	**To improve licence application processes, enabling quicker decisions for customers (see page 7)**	Achieved
	• 85% of unopposed operator licence applications determined within 9 weeks (see page 7)	Achieved
	• Simplified and quicker licence application processes implemented (see page 7)	Achieved
3	**To deliver a programme of improved e-service across the commercial and business sectors so that by 2008 80% of services will be available electronically (see page 20)**	Missed
	• Increase take-up of vehicle operator self-service to 55% of vehicle transactions (see page 21)	Achieved
	• Commercial Portal available to the public (see page 20)	Achieved
	• Online test booking capability available to the public (see page 21)	Missed
	• Online payments by credit/debit card capability available to the public (see page 21)	Missed
	• On track to deliver online licence applications in 2006/07 (see page 21)	Achieved
4	**To maintain or improve customer satisfaction against 2004 levels**	Achieved
	• **Operators** - satisfaction score ≥ 79% (with 5% tolerance) (see page 22)	Achieved
	• **Drivers, Fitters & Presenters** - satisfaction score ≥ 92% (with 4% tolerance) (see page 22)	Achieved
	• **MOT Customers** - satisfaction score ≥ 81% (with 6% tolerance) (see page 22)	Achieved

	BETTER COMPLIANCE	Result
5	**To improve enforcement effectiveness through increased targeting of offenders, making full use of Power to Stop, ANPR and improved intelligence data (see page 9)**	Achieved
	• 5% increase in effective targeting (see page 9) through a mixture of:	Achieved
	- Reduced percentage of vehicles detained at the roadside which have not contravened driver and vehicle regulations (see page 9), and	Achieved
	- Increased number of dangerous vehicles and drivers taken off the road (see page 9)	Achieved
6	**To complete the roll-out of a robust MOT Computerisation system nationally and implement the benefits realisation plan (see page 19)**	Achieved
	• Robust MOT computerised system roll-out completed (see page 19)	Achieved
	• Delivered first phase of benefits from specified benefits realisation plan (see page 20)	Achieved
7	**To complete the merger of the Intelligence and Compliance Units to ensure the independence of Traffic Commissioners and improve the quality of investigated cases presented (see page 9)**	Achieved
	• Roll-out of the Regional Intelligence Unit structure (see page 9)	Achieved
	• Achieved a significant increase in the quality and completeness of cases submitted to Traffic Commissioners (see page 9)	Achieved
	BETTER VALUE FOR MONEY	**Result**
8	**To deliver 5% value for money savings covering at least 2.5% of baseline cost reduction measures and 2.5% of effectiveness improvements (see page 28)**	Achieved
	• Value for Money Plan delivery: £3.5M savings (see page 28)	Achieved
	• Value for Money Plan delivery: +2.5% effectiveness (measured by PG points) (see page 28)	Achieved
9	**To improve the suitability of the VOSA test station estate, in terms of location and condition, to reflect changing customer requirements (see page 26)**	Achieved
	• To have completed refurbishment of four HGVTSs (see page 26)	Achieved
	• To have started roll-out of the modernisation programme of test hall equipment (see page 27)	Achieved

Business objective:

'To raise the compliance of the road haulage and passenger transport industries with licensing, roadworthiness, road traffic and environmental regulations and standards.'

Meeting customer requirements

Delivery of operator licensing

Our core activities include administrative support to the Traffic Commissioners (TCs) in processing 'O' licence applications, maintaining records of licence holders and maintaining a register of local bus services.

Volumes	2005/06	05/06 vs 04/05
Heavy Goods Vehicles (HGVs) Operator licences in issue	99,916	-1.9%
Vehicles on licence	368,200	-7.1%
New licence applications	8,805	-13.0%
Variations to licence	8,405	-9.9%
Continuation of licences	13,467	-4.3%
Public Service Vehicles (PSVs) Operator licences in issue	8,843	+1.6%
New licence applications	1,263	-4.3%
Variations to licence	1,141	+1.0%
Continuation of licences	1,037	-7.4%
Bus permits issued	4,163	-4.7%
Live bus registrations	23,380	-2.3%
New bus registrations and variations	3,719	-19.4%
Cancelled bus registrations	3,310	+3.8%

KEY TARGET:
To improve licence application processes, enabling quicker decisions for customers

We have simplified application forms and implemented extended Operator self-service, enabling operators to make further changes to their licence details online. We achieved our key measure on simplified and quicker application processes.

We exceeded the licensing turnaround key measure by reaching 92% of unopposed licence applications determined within 9 weeks of receipt. The satisfaction score for Operator Licensing increased from 83% to 91%.

Further detail on our progress in e-enabling licensing can be found later in the Report.

Delivery of vehicle testing

Our range of testing services has seen a slight increase in volumes:

Total tests	2005/06	05/06 vs 04/05
HGV Annual Tests	711,376	+0.6%
PSV Annual Tests	81,261	+1.0%

KEY TARGET:
To improve the availability of tests to meet customer needs better

We exceeded our target on availability of test appointments with 99.2% for HGV and 99.3% for PSV appointments.

Service Level Agreement (SLA)

We have had positive engagement and constructive dialogue with the Freight Transport Association, Road Haulage Association and Confederation of Passenger Transport on the testing SLA. Progress has been made in a number of areas, for example, one of our principles within the SLA is to provide adequate test facilities to enable efficient and accurate testing. We replaced headlamp aim testers in all our testing stations - details of this and other work on modernising equipment can be found on page 26 and 27.

We achieved our key measure on customer requirements by commissioning MORI research and conducting field trials, the results of which will inform future policy.

Testing in the future

We embarked upon a major review of our testing operation. Following evaluation of our testing processes in four stations during the year, we are on track to deliver a comprehensive range of changes across all our testing sites during 2006 to reduce customer waiting times, increase throughput and improve consistency of testing.

Reviewing the test

While carrying out statutory annual testing on HGVs and PSVs, we continue to seek out ways to improve our services to the trade and to ensure that the test is still appropriate to today's technology, legislative changes and road safety standards.

We completed a report to the Department for Transport on the feasibility of a check of **lorry mounted cranes and self loading devices** to ensure that they remain in the parked position when not in use. The report includes a number of considerations such as health and safety implications and issues with laden testing. We have put forward three options within the report - our recommendation being to take an educational role in the short term with the possibility of moving to an enforcement role, if appropriate.

A **check of seatbelts fitted in HGVs** was introduced on a Pass and Advise basis from 1 January 2006. As from 1 April 2006, any vehicles with defective seatbelts and/or associated items fail the test.

We put in place the infrastructure to enable Approved Tachograph Centres to carry out **digital tachograph checks** in time for the mandatory fitment date to new vehicles of 1 May 2006. By the end of May 2006, 259 tachograph centres had applied and been approved.

We developed a seminar programme for digital tachographs ready to support operators in understanding the legislation. Seminars took place early in 2006/07.

We are the lead agency in the **European Community Whole Vehicle Type Approval** (ECWVTA) project - a European directive which will extend whole vehicle type approval to buses, coaches, lorries and trailers. The first stage of negotiations on an EU Revised Framework Directive was concluded in December 2005 by the Department, and, during the year, we have been continuing to prepare for the impact of the legislation. Entry into force of the Directive is not expected before summer 2007, followed by transposition into UK law later the following year. There will be a gradual build up of work taken on by our technical staff from 2009 onwards as type approval for the various vehicle categories becomes mandatory.

Encouraging compliance

KEY TARGET:
To improve enforcement effectiveness through increased targeting of offenders, making full use of Power to Stop, ANPR and improved intelligence data

We have placed greater effort on directing resources specifically towards non-compliant operators to reduce the burden on the compliant. We have:

- **increased the average rate of prohibition points per roadside check (up from 15.2 to 17.9), indicating that more non-compliant and thus prohibitable vehicles are being stopped;**
- **decreased the percentage of compliant vehicles detained at the roadside (down from 77.1% to 73.5%); and**
- **increased the number of dangerous vehicles and drivers removed from the road (up from 11.6% to 14%)**

These improvements in our effectiveness meant that we exceeded our key measure to increase effective targeting by 5%.

Improving our intelligence capability

Regional Intelligence Unit (RIU)

KEY TARGET:
To complete the merger of the Intelligence and Compliance units to ensure the independence of Traffic Commissioners and improve the quality of investigated cases presented

Following a successful pilot, we achieved one of our key measures through the roll-out of a new RIU structure: This has:

- created a clearer separation of function between the Traffic Commissioners' (TCs) decision-making and VOSA enforcement and investigative processes; and
- improved VOSA's duty of care to intelligence sources and customer services to the TCs.

Our second key measure was achieved through a significant increase in the quality and completeness of casework submitted to TCs - evident through, for example, improved details and findings of investigations.

Targeting Framework
We have implemented a new targeting framework based on the Police National Intelligence Model, to allow us to set strategic enforcement targets at national, regional and local levels. This is supported by a new Strategic Analysis Unit based in Bristol.

Transforming enforcement operations

Power to Stop
By March 2006 all police forces in England and Wales (with the exception of City of London) had accredited our Enforcement Officers with Power to Stop. The Scottish Police Association (ACPOS) have, in principle, agreed to similar arrangements in Scotland and work on the necessary legislation has started.

Mobile Compliance Device (MCD)
Our new Mobile Compliance Device enables mobile real-time data capture and retrieval at the roadside for all our Enforcement Officers. The new equipment was successfully trialled in the year and roll-out completed early in 2006/07. This will provide a significant uplift in the efficiency, accuracy and effectiveness of our enforcement activity next year.

"We only stopped him because the intelligence marker lit up when I put his vehicle registration number in. He was a serial offender … with a string of roadworthiness, overloading and offence notices…. it also showed that he had not had previous roadworthiness prohibitions cleared.

Previous defects included speed limiter disconnected (twice), brake discs fractured on 3 wheels, air leaks from brake system and wing badly holed".

Traffic Examiner, MCD pilot user, February 2006

Operator Compliance Risk Score (OCRS)
We have developed and introduced OCRS. This calculates the likelihood of an operator being non-compliant. Historic data on test history, roadside and fleet inspections and prosecution results are used, as well as predictive indicators based on, for example, fleet size or ages of licence. The system will link to MCDs in the coming year, thus enabling more immediate access to risk-related data at the roadside. The introduction of OCRS will also provide improved objective information to operators to enable them to assess their individual safety performance relative to their industry sector.

Automatic Number Plate Recognition (ANPR)/ Weigh In Motion Sensors (WIMS)
A trial to investigate the viability and benefits of linking ANPR and WIMS technology for enforcement purposes was conducted at the beginning of the year. The trial was the first of its kind within the UK and involved the Highways Agency (HA), VOSA, Central Motorway Police Group and the Department for Transport (DfT).

We recorded a high occurrence of overloading in vehicles.

The trial also concluded that combined ANPR and WIMS installations can provide highly focused enforcement targeting.

Results of trial:

Vehicles identified as potentially overloaded	**130**
Vehicles actually overloaded	**109**
Vehicles attracting overloading prohibitions	**93**
Drivers' hours prohibitions issued	**23**
Mechanical prohibitions issued	**29**
No. of impoundings	**2**

As a result of this trial, we have accelerated our plans with HA for roll-out of sensors during 2006.

Dangerous goods security checks
We increased our work relating to dangerous goods. Heightened security since the terrorist attacks of 9/11 has resulted in a new area of work - inspection of premises/sites where dangerous goods are located, to assess the security arrangements at those sites. Our Traffic Examiners underwent specialist training by representatives from the Security Service, police, TRANSEC, Health and Safety Executive (HSE) and VOSA. The inspections are made in conjunction with police counter terrorist security advisors.

Education

We provided education and advice to operators to help them start out and remain compliant. This included advice on the introduction of the Road Transport Working Time Regulations to enable the industry to amend its working practices over time and implement the new requirements as smoothly as possible. We ran a series of national seminars and provided speakers at almost 100 commercially-run seminars, including a successful working partnership with DriverHire, one of the UK's largest driver employment agencies. This was reinforced by a high quality DVD.

Visits to operators' premises: Our Traffic Examiners visited new operators, providing advice on safety, drivers' hours and vehicle loading, with follow-up visits by a Vehicle Examiner at 6 months.

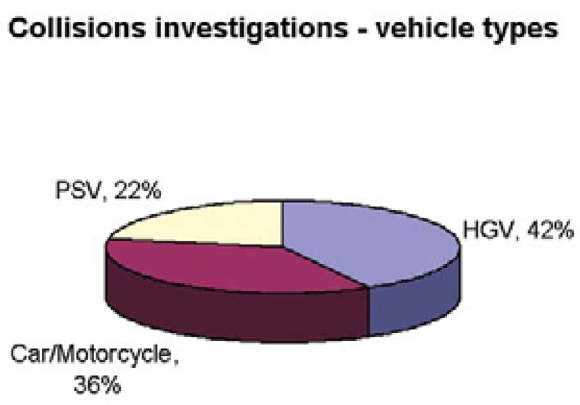
Moving On: Four issues of *Moving On*, our newsletter for operators, were published during the year, including pieces from other agencies eg. DVLA, and covering such subjects as:

- legislation on the fitment of digital tachographs.
- the Working Time Directive, and
- the Power to Stop initiative.

Understanding and promoting vehicle safety

Collisions investigations

We continued to work with police forces on collision investigations in cases of fatal or serious injury collisions, or where there is an allegation of a safety defect. We conducted a total of 2,473 investigations:



We have extended our training in vehicle collision examination techniques, and preservation and presentation of evidence. So far, 86 Vehicle Examiners have been trained and we have received accreditation for the training - the BTEC Professional Diploma in Post-Collision Vehicle Examination.

Applying the knowledge

We have been working in partnership with HA to review the data they record on incidents involving HGVs or PSVs. Similarly, we have been carrying out preparatory work with the Department to improve collision data sharing. Our aim is to exploit the data to inform our Targeting Framework to identify through operators, which vehicles and drivers are at risk of a collision. This is ongoing, and benefits will continue to be seen as this scheme develops.

Contributing to and drawing from other studies. We contributed to the Co-operative Crash Injury Study (CCIS) and Truck Crash Injury Study (TCIS). The CCIS examines medical information from vehicle occupants and collates it against the vehicle damage. Information from approximately 1,300 accident-damaged cars and injured occupants was gathered to assess correlation between vehicle design and injury.

A common approach on safety defects:
We shared information on vehicle and component defects with EU agencies and manufacturers on 269 recall launches.

Recall campaign trends

2005/06	2004/05	2003/04
269	255	193

These recall campaigns accounted for almost 1.6 million vehicles.

Collaborative projects in Europe

We were involved in a number of international projects including:

European Exchanges: We sent 9 of our Traffic Examiners to participate in exchanges in France and the Netherlands, covering fraud and ADR (carriage of dangerous goods) enforcement.

"I learned some very useful and interesting methods of fraud detection [As an example] a recent check on a foreign driver who was unable to produce charts at the roadside because he said "The French control had retained them". We knew without doubt that was not the case, this resulted in a prohibition for the driver...I met some lovely people who at the end of the day all have the same goals as I do in respect of road safety"

Anita Barwell, Traffic Examiner, East Midlands

We also hosted an exchange, attended by Examiners from France, the Netherlands, Belgium, Luxembourg and Austria. We increased our network of contacts for sharing intelligence and methods of best practice. We also won advisory projects in Romania, Slovakia and Malta.

Euro Contrôle Route (ECR) as part of our membership of ECR, we participated in an EC-funded project managed by the Royal Dutch Police - RequireMents for Overloaded Vehicles in Europe (REMOVE) - to reduce the danger and damage caused by overloaded vehicles.

Business objective:

'To improve the roadworthiness and environmental standards of private motor vehicles, and to contribute to the reduction of vehicle-related crime.'

MOT Scheme overview

We completed the biggest change to the MOT Scheme since its inception by delivering MOT Computerisation to all 18,300 garages. This is covered in detail in the next chapter.

MOT training

We delivered training of Authorised Examiners (AEs) and Nominated Testers (NTs), details as follows:

2005/06		
Training	Days	Attendees
MOT Managers (for AEs)	398	1,517
Initial light vehicle (NTs)	1,191	3,770
Initial motorcycle test (NTs)	230	368
Light vehicle refresher (NTs)	1,300	5,728
Corrective *	248	248
Motorcycle refresher	46	399
Computerisation	72	323

** Corrective training is given where an NT has carried out a test which did not meet the required standard.*

Education and communication

Matters of Testing: We continued to enlarge and improve our range of publications. *Matters of Testing* covered such subjects as:

- automated test lanes (ATLs);
- MOT computerisation; and
- headlamp aim.

Vehicle Testing Station Councils: eight of these informal Councils were held around the country to discuss issues of the MOT test, whilst working in partnership with the industry to supplement more traditional consultation methods.

"VOSA consults various organisations but it's hard to beat grassroots feedback. The council has discussed a wide range of topics...the agenda is very flexible and the staff from VOSA have been willing to listen, even though they're tied by legislation, as we all are."

Steve Reynolds, Selby Ford, Selby

Seminars: MOT seminars provided access to over 7,040 front line MOT garage staff. This year, topics included:

- computerisation;
- vehicle specific information;
- scheme progress update;
- MORI survey 2004; and
- VTS councils.

Surveys: The DVO Private Motorists' survey (covering MOT) was completed at the beginning of the year, with the results showing an 11% increase in satisfaction levels with the MOT since the last survey conducted during 2004/05.

Enforcing safe MOT testing

We took the following disciplinary action to improve standards and raise compliance:

Disciplinary Action	2005/06	2004/05	2003/04
Enforcement checks made	40,100	52,600	53,142
Targeted AE withdrawal	71	77	66
Targeted NT disqualification	82	149	135

The reduction in enforcement checks was due to the temporary redirection of staff to the roll-out of MOT Computerisation. With the system now in place, we anticipate more effective enforcement of MOT standards through better targeting.

Reviewing the test

Specifications for automated MOT test equipment

As part of our commitment to promote consistency in the test, we ran a project to review the viability and usefulness of automated test lane (ATL) equipment. ATLs were subsequently authorised for use from 1 September 2005.

Review of partial retests

Responding to feedback from the trade, we conducted a 3 month trial of over 44,000 initial tests, of which around 28% had failed, and analysed whether a partial retest would have highlighted the defect. Excluding the cases where a free retest was available, the results of the trial led to the conclusion that the partial retest would have been sufficient.

Following this study, and in consultation with the trade, proposals for legislation changes were put forward for autumn 2006 implementation.

Vehicle Approval Schemes

We carried out pre-registration inspections of vehicles that have not been type-approved to British or European standards (Single Vehicle Approval (SVA) and Enhanced Single Vehicle Approval (ESVA)) for commercial imports of such vehicles, as follows:

Numbers of inspections	2005/06	2005/06 vs 2004/05
SVA	6,145	-55.3%
ESVA	14,543	-14.8%
MSVA	7,473	+16.7%

Motorcycle Single Vehicle Approval (MSVA) volumes rose again during 2005/06 by 16.7%.

However, an overall fall in the combined total of SVA and ESVA tests since last year was, we believe, due to the higher standards required.

A successful trial for examining vehicles at a manufacturing facility (as opposed to test station or Designated Premises) was also conducted during the year.

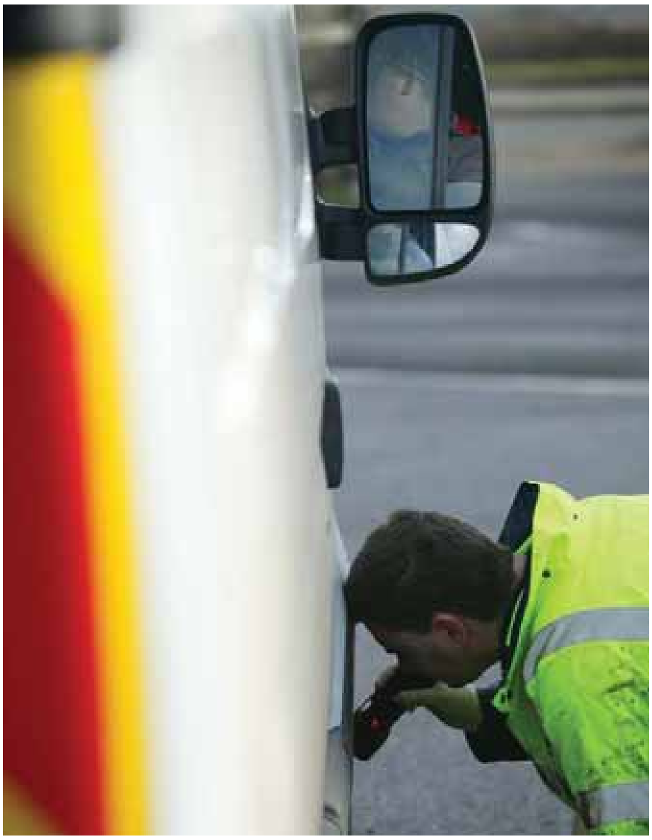
Light vehicle work

Fleet compliance check analysis

We completed an LGV and car fleet compliance check and, encouragingly, analysis showed that prohibition rates were lower than previous years.

Tests and spot checks

Just under 10,000 Class 4, 5 and 7 Light Goods Vehicle (LGV) tests were carried out at our test stations compared with just under 13,000 in the previous year. We conducted a similar number of targeted roadside checks on LGVs compared to the previous year, with a prohibition rate of 50%, compared with 46.6% in 2004/05.



Helping to reduce vehicle crime

The Vehicle Identity Check (VIC) scheme was brought in to deter criminals from using the identities of written-off vehicles to sell on stolen cars. Vehicles that have been written off and subsequently repaired are checked against the DVLA database.

Checks this year almost doubled to over 85,000, mainly as a result of improved data transfer from insurance companies to DVLA.

A review of the VIC scheme in 2005/06 concluded that the scheme has contributed to a further 17% reduction in vehicle theft, over the 8% reduction in its first year.

Testing research

We participated in the **Initiative for Diagnosis of Electronic Systems (IDELSY).** This is a project to develop a valid European test, utilising car onboard diagnostics, in partnership with German and Spanish partners. We completed our tasks ahead of schedule, concluding that the introduction of scan tool interrogation of electronic systems within periodic testing is essential for the future. We have advised that further work is necessary in conjunction with manufacturers.

Business objective:

'To work with DVO Group members and other partners to provide customers with a choice of modern, accessible and user-friendly services.'

Transformation through e-delivery

MOT Computerisation

KEY TARGET:
To complete the roll-out of a robust MOT Computerisation system nationally and implement the benefits realisation plan

On Wednesday 29 March 2006, a garage in Braintree, Essex, became the last of the existing 18,300 MOT vehicle testing stations to be activated on VOSA's MOT Computerisation system, signifying perhaps the biggest change in the scheme since its inception (46 years ago) and **the achievement of our roll-out of MOT Computerisation key measure.**

In an independent report, one of the UK's leading management consultancy firms said MOT Computerisation was "Probably the most complicated, bespoke business system that government has deployed". The scale of this achievement should not be underestimated; the project has involved the installation of equipment in 18,300 individual sites, ranging from single-owner garages in the Western Isles of Scotland, through to national chains in major conurbations. In addition, training was provided for 55,000 vehicle testers and 30,000 administrative staff. By 31 March 2006, almost 16 million vehicle test records had been entered onto the database, with over three quarters of a million tests being recorded each week.

Up to 31 March 2006, the supported system availability* has been 99.69%. There have been eight incidents in 2005/06 and a further incident in April this year, where either system outage or telephone line failures regrettably caused some disruption to a proportion of the trade. However, the system has two contingency measures (designed in conjunction with the trade) available to all garages, to enable them to continue testing in such incidences, and to provide motorists with certificates. These were invoked on all occasions. Our policy is to provide continuous improvements to the system, and we are working with the trade and our PFI partner, Siemens Business Services, to introduce a number of enhancements and technology upgrades.

** supported system availability is from 06.00 to 22.00, 365 days a year*

Benefits

The system provides significant benefits, such as:

- improved standards of MOT Testing;
- improved MOT scheme administration;
- reduction in MOT certificate theft, fraud and forgery ;
- improved consumer protection ; and
- improved customer services such as Electronic Vehicle Licensing.

Another system improvement, the introduction of functionality to enable garages to place orders and pay online, has significantly exceeded forecast take-up. At the end of March 2006, 90% of garages were making payments electronically.

The successful roll-out of MOT Computerisation enabled us to achieve our key measure on the MOT benefits realisation plan.

In parallel, we have commenced work to transform our internal processes to maximise the opportunities from MOT Computerisation. For example, we intend to adopt a more effective risk-based approach to compliance of MOT garages.

MOT Garages survey

A MORI survey of 300 MOT garages that had been computerised for longer than 6 months took place at the end of January. Overall feedback was positive. The garages felt that they had been well informed, ahead of the implementation of the system, and they found it easy to understand and to use.

"It's safer…it's easier, it makes the pass or fail more obvious and it's clearer for both the customers and for us doing the job."
Independent Garage in MORI survey

Motorists also have commented on their experiences of the new system:

"I have had no problems with it. It's good to build up a good relationship with a garage. The MOT system works very well. In my garage they have been using it a while and it takes no longer than it did before."
R. Legassick, Bristol

Commercial Customer Programme

KEY TARGET:
To deliver a programme of improved e-service across the commercial and business sectors so that, by 2008, 80% of services will be available electronically

We have been in the lead on a DVO project to deliver the Commercial Customer portal ***www.transportoffice.gov.uk***, the website for services and information for commercial customers.

The Transport Office portal was made available to the public in November 2005, and complements the motoring franchise on Direct Gov, which provides information and services for the private motorist. Operator self-service is now available through the Transport Office.

In delivering the portal, we achieved our key measure on portal availability.

Transport Office

Licensing online
The additional functionality for existing licence holders to change address/trading name, add/remove operating centre, and change transport manager was well received by the trade:

> *"The VOSA website has always been very straightforward to use and the new version makes it even better. Found the whole process very easy and think it is great that we can do a lot more online now, saves filling out all the lengthy paperwork… all seems to be covered by the web-site - excellent site!"*
>
> ***Ruth Wells, Interoute Transport***

We achieved our key measure on increased take-up of vehicle operator self-service - in January 2006, a high of 57.9% of vehicle transactions were conducted online.

e-Government National Awards 2006

Operator self-service took the Creative Solutions award for better regulation at the National Public Servants of the Year for 2006 Awards. The system, which went live on time and under budget last October, allows customers to access a whole range of services efficiently online. These include updating and paying for Goods and Public Service Vehicle Operator licences, paying fees, amending licence details and accessing a secure mailbox for receipt of related correspondence and documents.

New licence online
We achieved our key measure to be on-track to deliver new licences online, by completing preparatory phases 1 and 2 to the public - through the redesign of application forms and the addition of new functionality to allow further changes to existing licences.

Booking tests online
We introduced a new booking system for tests, to enable online booking in the future. However, this was not delivered to specification and has significantly delayed our plans to roll out online to our customers. **Thus we did not achieve our online test bookings key measure.**

Failures in the delivery of the test booking system also impacted upon our internal billing and test scheduling, which, regrettably, affected a number of our customers. The online service will not be implemented until all the issues with the first phase have been resolved, and it has been demonstrated to be reliable.

Online payments
In August 2005, we introduced the facility for operators to pay by debit or credit card over the phone at the time of booking. This is ahead of the introduction of full e-payments functionality which is dependent upon roll-out of the portal and online test bookings. This dependency meant that we failed to achieve our online payments key measure.

Improving customer relationships

KEY TARGET:
To maintain or improve customer satisfaction against 2004 levels

We completed a programme of eight DVO regional commercial operator workshops to engage with operators on new initiatives, changes in legislation and updates on our modernisation plans. A total of 764 operator representatives attended events throughout the country during the year.

We also carried out surveys on operators, and drivers, fitters and presenters. We achieved the Key Target, indicated by the three supporting key measures on overall customer satisfaction, as follows:

Customer satisfaction survey	2005/06 Actual	2004/05 Actual
Operators		
- overall satisfaction rating comprising:	**80%**	**79%**
Operator Licensing	91%	83%
Vehicle Testing	77% *	79%
Enforcement	73% *	75%
Speedy issue of new operator licences	82%	72%
Test station opening hours that reflect business needs	72%	59%
Lead time for test bookings	62%	53%
The ANPR and VOSA Power to Stop enforcement initiatives are having, or will have, a positive effect	More than 80% agree	More than 75% agree
Drivers, Fitters and Presenters		
- overall satisfaction rating comprising:	**93%**	**92%**
Roadside Enforcement Checks	93%	91%
Vehicle Testing	93% *	94%
Positive towards new enforcement initiative - VOSA Power to Stop	83%	81%
MOT Customers		
- overall satisfaction rating	**92%**	**81%**

** these fall within the agreed tolerance levels (see page 4).*

Responding to enquiries

Contact with MPs and the public

We provided answers to 265 Parliamentary Questions during the year and replied to 64 letters from MPs - 95% of the letters were replied to within the target time of 48 hours. Our headquarters dealt with 515 complaints, 72% of which received replies within 15 working days.

Freedom of Information (FOI)

The Freedom of information regime came fully into force on 1 January 2005. Overall, we met the deadlines for response in 76% of the 142 cases received. A further 10% could not be answered as we do not hold the information. We also published all responses of wider public interest on our website.

Enquiry Unit

Our Enquiry Unit handled 432,500 enquiries - an increase of 1.8% over last year. It took on enquiries regarding credit card payments for outstanding Operator Licensing fees, handling almost 3,000 calls in this area.

The unit has also been heavily involved in the roll-out of MOT Computerisation and, up until the end of March, had handled almost 6,000 calls redirected by our MOT Computerisation partner in relation to MOT test standards or suspect MOT certificates.

Business objective:

'To run an efficient, effective, continually developing and valued business, equipping our staff to make the best use of available technology, skills and knowledge.'

The right resources for the job

Competent staff meeting business needs

We have started work to deliver new HR support through the DfT Shared Services Project by April 2007.

Professional Skills in Government
We worked with the central Department to implement the Professional Skills in Government (PSG) framework as part of a Cabinet Office initiative to develop and improve skills in the Civil Service. From April 2006, the PSG framework will be used for recruitment of senior managers.

We implemented the jointly developed DVO Competency Framework. It will be used for recruitment next year, along with PSG. It provides a clear set of standards for managing and developing people and improving performance.

Organisational Design
In May 2005, we introduced the new VOSA business model. It has three service delivery Directorates - each focusing on a stage in the lifecycle of our contacts with customers - entry, operation and dealing with the non-compliant (Commercial Customer Services, Testing and Inspections, and Intelligence and Targeting). Similarly, we now have three customer facing Directorates - responsible for understanding and responding to the needs of our customers (including the trade and the Department) in the three vehicle sectors of Goods Vehicles, Passenger Vehicles and Private Vehicles.

Technical training

We developed a programme for VOSATech, a broad technical development programme that will develop technical competence, as well as managerial ability, and which will supersede our Apprenticeship Scheme.

We continued the training of graduate mechanical engineers under the Graduate Mechanical Engineering Training Programme. The Department's Transport Technology and Standards Division (TTS) joined as a partner in the Scheme, alongside the Vehicle Certification Agency (VCA).

The Scheme received the maximum accreditation of three years from the Institute of Mechanical Engineers.

Training in response to legislation
We provided training to our entire HGV testing staff to cover new legislation on:

- the introduction of twist locks
- HGV seatbelts

Diversity
We conducted and published the results of our Ethnicity Survey. We assessed the results and compared them to census information to establish VOSA's make-up against national averages.

We now have information on the specific areas where we can target our diversity policy more effectively, for example, to ensure a better balance and fairness in our recruitment and selection for promotion.

We trained selected staff to carry out Equality Impact Assessments to incorporate the 6 equality strands (race, sexual orientation, age, gender, disability, and religion and beliefs). This represents significant progress within the requirements of the Race Relations (Amendment) Act 2000.

Investing in our staff

Investors in People (IiP)
We are fully committed to IiP. Our current status is 'Retaining Recognition' and we have developed, and are now implementing, a comprehensive action plan to improve the investment in our staff.

Partnership agreement with Unions
During the year, we have worked with our Trade Union representatives with the aim of improving industrial relations within the Agency. A new Working Agreement was signed between VOSA, Amicus, Public and Commercial Services Union and Prospect. It sets out the commitment required from all parties to allow a professional, productive relationship to develop, with the aim of providing effective industrial relations.

Sickness absence management
An increase in cases of long-term sickness absence meant that we fell short of our target of 8.0 days sickness absence per employee, against an actual average of 9.2 days. We worked on:

- refresher management training on sickness absence management;
- a new stress management training course;
- new and improved employee assistance services through Counselling in Companies;
- a programme of health awareness days; and
- an increased number of visits to employees on long-term sickness absence.

Modernising our estates

KEY TARGET:
To improve the suitability of the VOSA test station estate, in terms of location and condition, to reflect changing customer requirements

We achieved our key measure by delivery of the 2005/06 estates modernisation plan. We completed modernisation of four more stations: Northampton, Leeds, Leighton Buzzard and Caernarfon. Our Leeds station returned to operation with an additional lane for dedicated enforcement activities.

We investigated the practicalities of installing alternative fuel generators and, in the forthcoming year, we will be trialling wind turbine generators at Grantham and Newcastle.

Replacement Test Lane Equipment
We developed a user requirements specification for new test lane equipment such as roller brake testers, load simulators, emissions equipment and improved inspection pits. Equipment from our preferred supplier was trialled and then installed in our Leeds testing station, prior to roll-out of installation across the country. We installed new headlamp aim testers into all 175 of VOSA heavy goods vehicle testing lanes. The equipment is designed to allow fast, accurate, improved testing of headlamps, utilising electronic aim measurement to ensure objective and consistent aim assessment.

In completing these works, we achieved our key measure on modernisation of test hall equipment.

Improving environmental standards
Working towards the Government's sustainable development strategy, we carried out work benchmarking our energy consumption at test stations against numbers of vehicles tested.

Forthcoming sustainability projects include:

- increasing the use of more environmentally friendly vehicles;
- promoting car shares;
- commissioning a new water consumption survey; and
- internal energy consumption reduction targets.

Sharing sites
We jointly opened the South Mimms Regional Control Centre with Highways Agency. The benefits include economies of scale and better value for money, more secure accommodation for our staff, and the facilitation of cross-agency working.

Ensuring a healthy and safe working environment

Training of H&S Co-ordinators (HSCs)
By the end of the year we had 15 trained local Health and Safety (H&S) experts, supporting local management in preparation for the following changes in the coming year:

- updated risk assessment for statutory testing, including new test items
- revised HSE guidelines for manual handling; and
- changes to the Noise at Work, and Control of Substances Hazardous to Health (COSHH), regulations

Controlling exposure to noise at work
We worked on preparation for compliance with new, lower, noise exposure limits being introduced on 6 April 2006, through:

- minor modifications to working practices; and
- trialling the use of different types of personal hearing protection.

Early in 2006, we assessed the results from testing stations and agreed an implementation plan. In April and May, station managers were briefed by HSCs to ensure that they were fully prepared for the changes to test procedure and the requirement for staff to wear hearing protection while in the pit.

Fire safety
We worked on producing a template and guidance notes for a new model Fire Risk Assessment to be used in most VOSA premises in England and Wales in response to changing regulations on fire safety now due in October 2006.

A review of COSHH procedures was also largely complete by the end of the year in preparation for revised procedures and a new COSHH manual, to be introduced during 2006/07.

Delivering value for money

KEY TARGET:
To deliver 5% value for money savings covering at least 2.5% of baseline cost reduction measures and 2.5% of effectiveness improvements

By March 2006, we had reduced our staff numbers from 2,770 to 2,708 (full-time equivalent staff in post (including agency staff)), exceeding our Value for Money (VfM) Plan target of 2,714, based on end-of-year headcount. We achieved this through a number of projects, including centralisation of licensing administrative staff, increased productivity of operational staff, and e-enablement of certain services. The figure of 2,714 includes increases to staff numbers to accommodate additional work, including further test items, and an increase in roadside stoppers.

As an initial step to control headcount growth, and to begin to identify posts for redeployment for staff affected by our VfM programme, we tightened up our process for filling posts permanently. The Vacancy Management Protocol was introduced in early 2005, and significantly contributed to the VfM savings made.

By achieving efficiency savings of £4.4m, equating to 3.0%, we achieved our efficiency key measure.

We made efficiency savings in a number of areas, in particular:

- reduced baseline IT costs (ie. excluding specific project expenditure and commencement of MOT Computerisation delivery costs) - due to a more rigorous examination of budget requirements, producing savings of £2.1 million;
- lower expenditure on consultancy - through more effective staff recruitment and a drive to reduce the use of consultants across the business, producing savings of £1.3 million;
- reduced baseline travel and subsistence (ie. excluding in-year, one-off costs to support roll-out of MOT Computerisation) - through encouraging staff to reconsider work options impacting on the need to travel and stay away, producing savings of £0.5 million; and
- lower baseline staff costs - linked to the reduction in staff numbers, producing savings of £0.2 million.

We measure our effectiveness through Performance Gain (PG) points and last year, we achieved a 14.7% increase in PG points, significantly exceeding the key measure of 2.5%.

Directors' Report 2005-2006

The Role of VOSA

The Vehicle and Operator Services Agency's responsibilities, which are undertaken in conjunction with other authorities, are concerned with enforcing the law on vehicle safety and environmental protection legislation. This is carried out through the administration of operator licensing; the statutory testing of Heavy Goods Vehicles, Public Service Vehicles, Light Goods Vehicles and those vehicles encompassed by the single vehicle approval and vehicle identity check schemes; specialised inspections for premises storing and vehicles transporting dangerous goods, perishable foodstuffs and goods sealed for Customs purposes; enforcement activities to check vehicle roadworthiness and compliance of drivers and operators with road traffic regulations such as drivers' hours and load weights; and the supervision of the MOT Testing scheme. VOSA also provide the independent Traffic Commissioners with administrative support in regulating the commercial vehicle transport industry, including the registration of bus services, the licensing of vehicles and operators and Public Inquiries.

Background

The Vehicle and Operator Services Agency (VOSA) is a Trading Fund. It operates as part of the Driver, Vehicle and Operator (DVO) Group within the Department for Transport (DfT), formed on 1 April 2003 by the merger of the Vehicle Inspectorate Trading Fund (VI) and the Traffic Area Network (TAN), a division of DfT.

VI was founded in 1964 as a division of the Ministry of Transport and was established as the first Executive Agency under the Government's Next Steps initiative on 1 August 1988. It attained Trading Fund status under the provisions of the Government Trading Funds Act 1973, with effect from 1 April 1991. On 1 April 1992 the Traffic Enforcement functions previously undertaken by the Department of Transport were incorporated into VI's responsibilities.

TAN was created under the Road Traffic Act 1930 with responsibility for issuing licences for Public Service Vehicles. These responsibilities were extended under the Road and Rail Traffic Act 1933 to cover the licensing of goods vehicles and operators. Specific responsibilities have changed throughout the intervening years, the most notable being the transfer of responsibilities for Driving Tests to the Driving Standards Agency in 1990, the transfer of issuing vocational licences to the Driver and Vehicle Licensing Agency in 1991, and the transfer of Traffic Enforcement functions to VI in 1992.

Business Priorities

The business priorities of VOSA are set out on page 3 of the Annual Report.

Financial Objectives

The Government Trading Funds Act 1973, lays upon the Minister responsible for each fund the financial objective of:

i. managing the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to the revenue account; and

ii. achieving 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.

The financial objective of VOSA is to earn an average return of 3.5% per annum in the form of an operating surplus expressed as a percentage of average net assets employed at current values over the period 1 April 2003 to 31 March 2008 and is set out in the HM Treasury minute reproduced at Annex A to the accounts. VOSA has the additional financial objective of contributing to the DVO Group 5% 'Value for Money' target by delivering against an agreed VOSA 'Value for Money' plan, achieving 2.5% efficiency and 2.5% effectiveness measures.

Directing Board, DVO/DfT and Audit and Risk Management Committee

As part of an organisation restructure which is due to complete during 2006, there have been changes within the VOSA Directing Board, including new Director roles in Intelligence and Targeting, Passenger Vehicles, Private Vehicles, and combining two previous Director roles into a Commercial Customer Services Director. All posts were recruited through open competition.

Mrs Janice James was appointed Intelligence & Targeting Director on 1 January 2006, and Mr Alex Fiddes was appointed Private Vehicles Director on 1 January 2006. Mr David Trussler was appointed Commercial Customer Services Director on 6 March 2006. Mr Tony Downes was appointed to the role of Passenger Vehicles Director, and sat at both Directing and Advisory Board during March 2006, under resettlement arrangements with his department, prior to taking up the post in VOSA on 25 April 2006.

Mr Martin Jones continues in the role of Human Resources Director. Under the organisation restructure this role reports to the Corporate Services Director, and is not part of the Directing or Advisory Board. Mr William Buckley took early retirement at the end of December 2005 and Mr Jeremy Rolstone took up a role within the Department for Transport during March 2006.

Mrs Caroline Blatchford replaced Mrs Elizabeth Bertoya from 1 January 2006 as a non-executive appointee and Chair of the Audit and Risk management committee. From 1 January 2006 Mr Alex Jablonowski replaced Mrs Geraldine Terry as a non-executive appointee.

The following officers constituted VOSA's Advisory Board at 31 March 2006:

VOSA
Mr Stephen Tetlow - Chief Executive
Mr Jeffrey Belt - Corporate Services Director
Mr Hugh Edwards - Goods Vehicles Director
Miss Linda Willson - Business Strategy & Corporate Development Director
Mr Alastair Peoples - Testing and Inspections Director

Mr William Buckley - Commercial Customer Services Director (to 31 December 2005)
Mr Jeremy Rolstone - Director (to 8 March 2006)
Mrs Janice James - Intelligence & Targeting Director (new role from 1 January 2006)
Mr Alex Fiddes - Private Vehicles Director (new role from 1 January 2006)
Mr David Trussler - Commercial Customer Services Director (new role from 6 March 2006)
Mr Tony Downes - Passenger Vehicles Director (new role to be taken from 25 April 2006)

Non-Executive Directors
Mrs Caroline Blatchford - non-executive appointee (from 1 January 2006)
Mr Alex Jablonowski - non-executive appointee (from 1 January 2006)
Mrs Elizabeth Bertoya - non-executive appointee (to 31 December 2005)
Mrs Geraldine Terry - non-executive appointee (to 31 December 2005)
Mr John Doran - non-executive appointee

During the year it was recognised that a potential duplication of effort existed between the roles and responsibilities of the VOSA Advisory Board and the DVO Board. As a result, and with the endorsement of the Departmental Permanent Secretary and Ministers, the Advisory Board has been abolished and issues previously dealt with by the Advisory Board are covered by a combination of the Agency Directing Board (with periodic attendance by the DVO Director General), the DVO Board and quarterly meetings between the agency chief executive and Ministers.

The DVO Board is now responsible for advising the DVO Director General, as Additional Accounting Officer, on his recommendation to Ministers of the Agency's Secretary of State Key Targets and business plans and on performance during the year against these targets and plans.

Pension liability

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

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

Employment of registered disabled

Full and fair consideration is given to applications for employment by disabled persons, having regard to their particular aptitudes and abilities. Wherever possible arrangements are made for the continuing employment of persons who have become disabled during service, and for the appropriate training, career development and promotion of disabled employees.

Staff involvement

During 2005-06 VOSA employed, on average, 2,684 (full-time equivalent) people throughout the country. VOSA is an equal opportunity employer. Consequently, all staff, irrespective of their status, origin, sexual orientation, religion or beliefs, will be treated equally and judged solely on the basis of their ability, qualifications and fitness for the work.

Staff involvement is actively encouraged within VOSA as part of the day-to-day process of line management supplemented with the wide dissemination of information through computerised networks and other means, including an in-house electronic magazine entitled VOSAlink. Formal and informal negotiations and consultations are conducted with trade unions, at both local and national Whitley Councils.

Training and Health and Safety

One of management's main priorities is to invest positively in scheme training and individual personal development. VI was initially accredited as an Investor in People (IiP) organisation in December 1999 and re-accredited in January 2003. Following the merger between TAN and VI that created VOSA in April 2003, the new organisation continued to be recognised as an Investor in People under IiP's Merger and Acquisitions guidelines. VOSA was then assessed as a single organisation. However, VOSA did not meet all of the requirements of the IiP Standard following reviews in 2004 and 2005. Subsequently the organisation is in a "Retaining Recognition" period and has until December 2007 to meet all of the elements of the Standard. The Directing Board is committed to return to an accredited status during the coming year. A full programme of training courses are run at the Bristol Training Centre, the Chadderton Training Centre and at local venues.

The health, safety and welfare at work of all employees continue to be a priority, and safety policies and procedures remain under continuous review to achieve further improvements.

Policy and practice on the payment of creditors

VOSA's policy, in line with that of DfT, is to pay 98% of all undisputed bills in accordance with contractual conditions or, where no such conditions exist, within 30 days of the receipt of goods or services or the presentation of a valid invoice, whichever is the later.

Throughout the year 99% of undisputed invoices were settled within this policy. VOSA is also a supporter of the Confederation of British Industry's Prompt Payers Code of Good Practice.

Market value of land and buildings

Freehold and leasehold land and buildings are re-valued over a five year period with approximately one fifth of the estate being valued each year by an independent valuer. The Directors consider that there is no significant difference between the book value and the market value on an existing use basis of the land and buildings.

Movements in tangible fixed assets are set out in note 6 of the accounts.

Auditors

The accounts of VOSA are audited by the National Audit Office, and the Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament is presented in the Annual Accounts at page 50. The financial statements are audited in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

Audit fees charged in the accounts amount to £50,000 (2004-05: £53,000). There were no non audit fees charged in 2005-06.

Disclosure of audit information to VOSA's auditors

As far as the Accounting Officer is aware, there is no relevant audit information of which VOSA's auditors are unaware.

The Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that VOSA's auditors are aware of that information.

Accounts direction

The accounts on pages 52 to 75 have been prepared in accordance with the direction given by the Treasury in pursuance of Section 4(6)(a) of the Government Trading Funds Act 1973, and the Dear Accounting Officer Guidance note [DAO (GEN) 01/06].

Management Commentary 2005-2006

The Management Commentary has been prepared in compliance with Reporting Standard 1, and provides a high level overview of the main areas of VOSA's financial performance for the prior, current and future business planning year, and also sets out, in summary, VOSA's plan for the coming year.

Financial performance

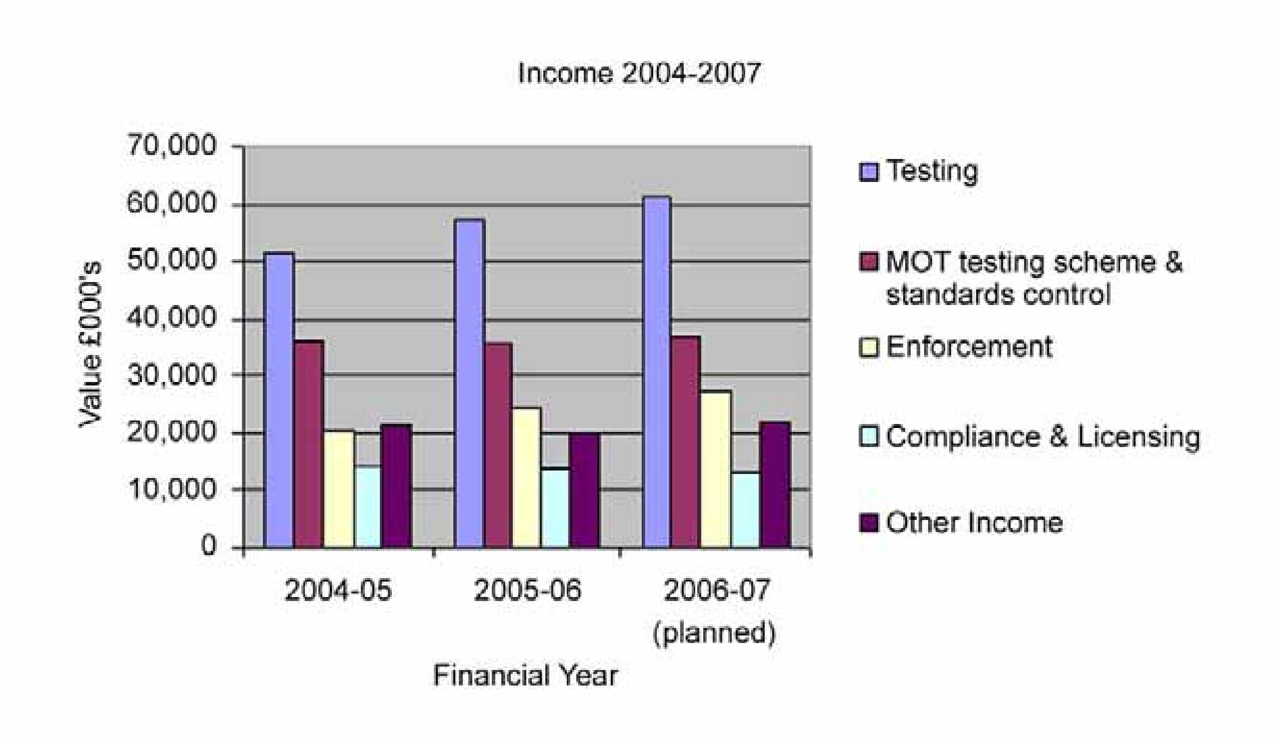
The Income and Expenditure Account for the year 2005-06 is set out on page 52 of the Annual Report. The statutory activity work is funded through fees and charges whilst the enforcement activities are funded by Treasury (monitored through volume-based Service Level Agreements between VOSA and DfT, acting on HM Treasury's behalf). After analysis of direct and activity-specific costs, the overhead running costs are allocated between the activities.

As a Trading Fund, VOSA is set a financial objective to break even year on year (set out at para (i) on page 30 within the Directors' report). Whilst VOSA has made an overall deficit for the current year, the cumulative position for VOSA remains in surplus. The Agency has a duty to set its fees for future periods that will result in a balanced overall position, and therefore structures fees and charges on this basis. In future years VOSA is planning to rationalise and simplify the fees currently charged.

The outturn for the year produced a deficit of £5.1m at the operating level. The major contributing factor was the planned roll out of the MOT computerisation system which resulted in planned payments associated with the transactional volumes undertaken through the computerisation system.

As presented in the Business Plan for the coming year the planned outturn will be a deficit in 2006-07 of £18.4m at the operating level (this being the first year where 100% of all MOT tests would have been undertaken on the computerisation system resulting in a significant increase in the payments related to MOT transaction volumes). This will continue to reduce the surplus of the MOT scheme (see Note 2 to the accounts).

Income



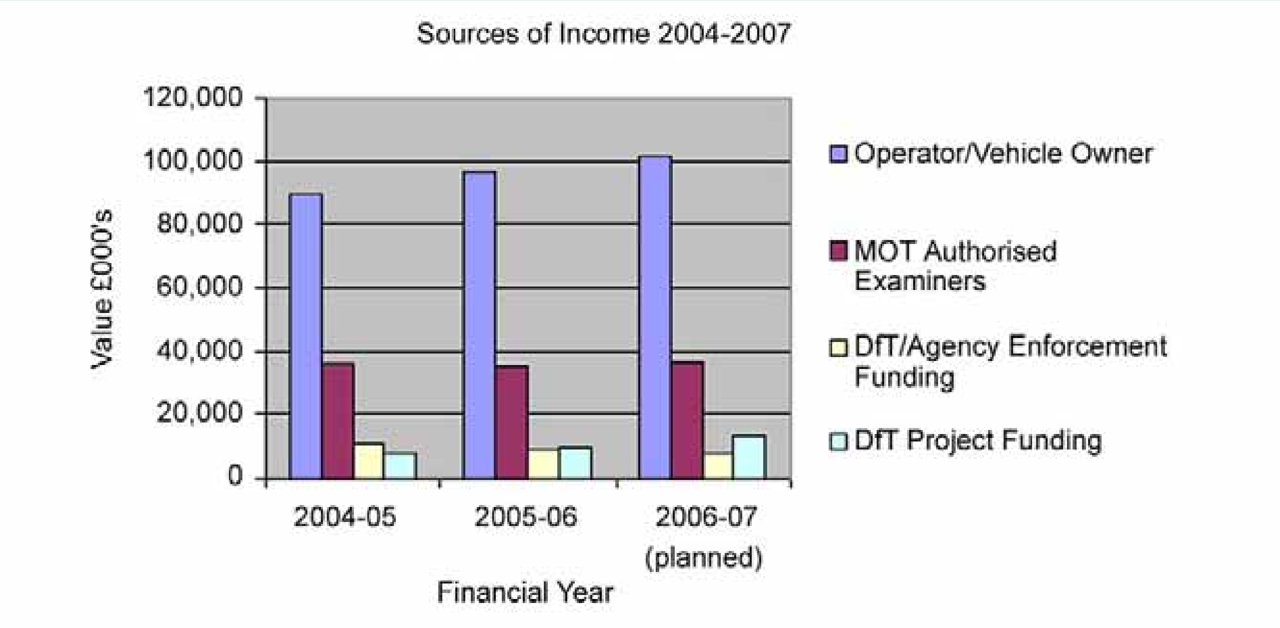
The income for the year was £151.9m (2004-05 £144.3m), an increase of £7.6m (5.3%) on the previous year. Income from activities increased by £9.0m due to fee increases. Other operating income decreased by £1.4m mainly due to a reduction in the release of funding received from the Department for Transport and Central Government budgets such as Invest to Save and Modernising Government.

It is anticipated that income will rise from statutory testing as a result of receiving a full year's benefit from fee increases implemented in 2005-06, and increased funding for enforcement work from DfT.

Sources of income

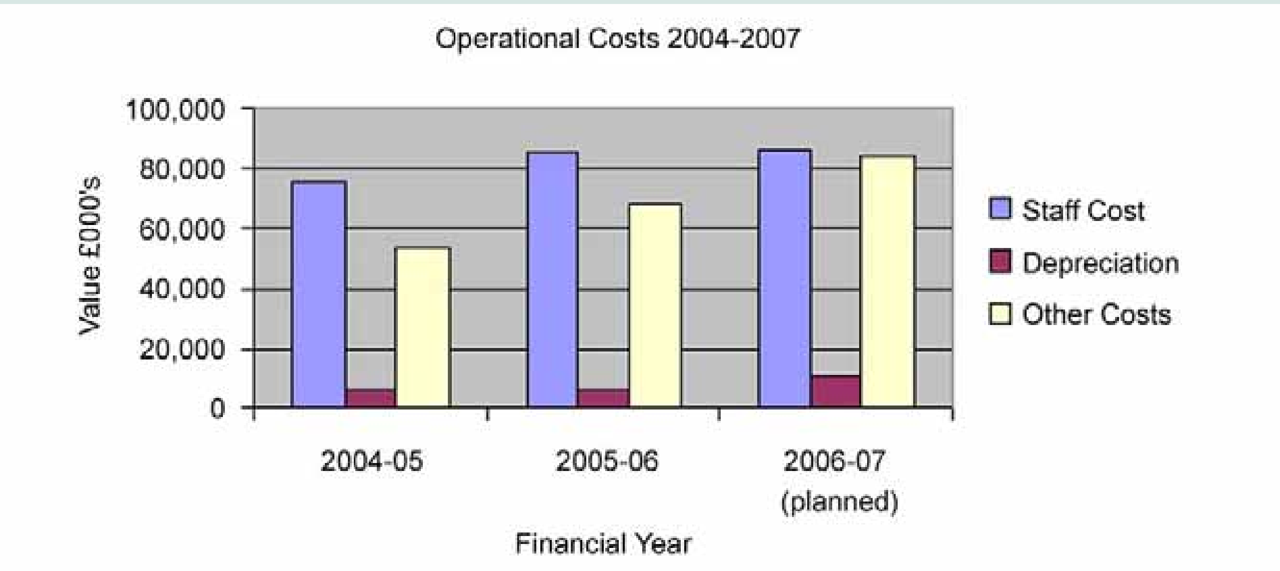
VOSA's income is obtained from three main sources:

- from Operators, vehicle owners and presenters in the form of annual and specialist test fees, 'O' licence fees and vehicle fees;
- from MOT Authorised Examiners in the form of MOT certificate fees; and
- from the DfT and other Agencies in the form of direct funding of enforcement work. The DfT also provides funding for specific major investment projects



Operational costs

Total operational costs increased by 18.2% to £161.2m (2004-05 £136.3m). Salaries increased by 9.8% to £85.7m, in line with our forecasts. The majority of this increase resulted from the annual pay award and increased employers' superannuation charges. Other operating charges increased in the year by 31.7% to £67.7m slightly below our forecast outturn. The increase from last year was mainly due to an increase in IT spends arising from new projects undertaken with ATOS Origin our main IT provider, and payments to Siemens Business Services for work related to the MOT Computerisation project. Spend also increased on rents, travel and subsistence costs and the costs associated with Traffic Commissioners and Deputy Traffic Commissioners.



Delivery of Value for Money savings has maintained a consistent level of staff costs, after allowing for inflationary increases and additional employers' superannuation charges. Depreciation costs are anticipated to increase as a result of the implementation of the Commercial Portal, and the development of e-services which will be provided through it. The increase in other costs arises predominantly from higher IT spend due to enhanced business systems and improvement to the VOSA infrastructure.

Asset management

During the year there has been a significant investment both in the modernisation and refurbishment of the testing station estate across the UK, and also in the development of some major IT systems, including the e-enablement of the test booking and payment system which is included under assets in the course of construction at year end.

There have been some large movements in the debtors position during the year arising from payments made in the year designed to secure future benefits through phased cost reductions over the remaining 10 years of contracts.

The level of creditors held has also increased in the year, primarily resulting from the need to accrue for services delivered by our IT suppliers during the financial year - for which invoices will not be raised until after the year end. A review of the fees in advance balances held in creditors was also undertaken which has resulted in an increase in the sum due within one year and a contra reduction in the sum due after one year.

Details of balances held in the balance sheet are contained in the notes to the accounts.

Net funds

Net funds stand at £48.8m, a net movement of £36.0m in year, which is due to the increased loans granted of £34.5m including the conversion of the original vesting loan into a repayment loan, other loans made in year for the ongoing investment in the estates refurbishment, and commercial portal projects. There was a slight reduction in the value of cash at bank during the year.

VOSA manages liquidity risk within the framework of operating as a trading fund within the Department for Transport. The cash balance is held in short term interest bearing accounts and a significant part of it is held in the account at the Paymaster General's Office.

Return on Capital (ROC)

The average ROC over the period 1 April 2003 to 31 March 2006 was 6.7% - against the target average figure of 3.5% achievable over the period 1 April 2003 to 31 March 2008. Although the average ROC return is well above target, future plans indicate that this figure will outturn closer to the target average of 3.5% by the end of March 2008.

Forward plans

The strategy and plans for the future are all about changing the way VOSA deliver in 2006-07 and beyond.

VOSA's vision is that:

By 2008 VOSA will be
DVO's on-road vehicle and operator
standards and enforcement specialist
delivering value for money services,
targeting the non-compliant,
championing
safe, clean and economic
road transport.

In particular, highlights of the 2006-07 plans include:

New industry-facing Director roles from 1 April
… looking forward to an improved, customer-centric approach, with Director roles specifically and separately covering the lorry and bus/coach commercial industries and private cars

Roll-out of new equipment to enable real-time intelligence at roadside checks
… enforcement staff will have access to Mobile Compliance Devices

Targeted enforcement, including vehicles 'at risk' of causing congestion
… carrying out work in partnership with the Highways Agency, we aim to contribute towards improving journey time reliability

Delivery of online services through the portal ***www.transportoffice.gov.uk***
… extending operator self-service, delivering e-test bookings

Improved car MOT standards, benefiting the private motorist and garage industry
… benefits will include enabling full EVL, checking certificate validity, reducing administration

£10m investment to continue modernisation of our specialist estate
… further estates modernisation will take place, improving operational efficiency

Delivery of £7m efficiencies to enable investment in front-line staffing
… continuing to review services and processes to deliver efficiency savings

VOSA will contribute towards Government goals of:

Improved road safety
Improved journey time reliability
Protected environmental standards
Reduced vehicle crime
Transformed public services

VOSA will also contribute towards six of the seven DVO outcomes through which the Group will deliver its vision. These outcomes are:

Effective services to customers
Improved road safety
Improved journey time reliability on the roads
Better regulation
Reduced environmental impact, crime and anti-social behaviour
Better value for money

Prioritisation of work for 2006-07 is reflected within VOSA's Secretary of State Key Targets:

Key Targets 2006-07

To maintain or improve customer satisfaction at 2005-06 levels

To improve the consistency of VOSA's vehicle testing service across the country

To contribute to improved road safety by reducing the administrative burden of commercial operation and increasingly targeting enforcement on non-compliant vehicles and drivers

To contribute to making journeys more reliable on the strategic road network, improving road safety and minimising congestion, by working in partnership with the Highways Agency and targeting "at risk" vehicles

To deliver VOSA's Value for Money plan

To increase the take-up of electronic services available to customers

These targets are supported by ten measures - details can be found in the VOSA 2006-07 Business Plan.

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.

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

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

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

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

Service contracts

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

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

Further information about the work of the Civil Service Commissioners can be found at: ***www.civilservicecommissioners.gov.uk***.

Salary and pension entitlements

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

Directors	2005-2006 Salary £'000	2004-2005 Salary * £'000
Mr Stephen Tetlow Chief Executive	100-105	30-35 (from 06/12/2004) (full year 100-105)
Mr Jeffrey Belt Director	70-75	60-65
Mr Hugh Edwards Director	60-65	60-65
Mr Martin Jones Director	60-65	55-60
Mr Alastair Peoples Director	65-70	25-30 (from 07/12/2004) (full year 60-65)
Miss Linda Willson Director	65-70	55-60
Mr William Buckley Director (to 31 December 2005)	45-50 (full year 60-65)	55-60
Mr Jeremy Rolstone Director (to 8 March 2006)	55-60 (full year 60-65)	50-55
Mrs Janice James Director (from 1 January 2006)	15-20 (full year 60-65)	N/A
Mr Alex Fiddes Director (from 1 January 2006)	15-20 (full year 60-65)	N/A
Mr David Trussler Director (from 6 March 2006)	0-5 (full year 70-75)	N/A

** All salary figures previously disclosed in 2004-05 Annual Accounts included ERNIC & superannuation. Figures shown above exclude ERNIC & superannuation.*

The Driver, Vehicle and Operator Group pay the non-executive Directors for their attendance at, and preparation for the Directing Board and Audit and Risk Management Committee meetings.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to 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 thus recorded in these accounts.

Pension benefits

Directors	Accrued pension at age 60 as at 31/3/06 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31/3/06 £'000	CETV at 31/3/05 £'000	Real increase in CETV £'000	Employee contributions and transfers in Nearest £100
Mr Stephen Tetlow Chief Executive	0-5 plus 0 lump sum	0-2.5 plus 0 lump sum	37	7	25	3,600
Mr Jeffrey Belt Director	15-20 plus 50-55 lump sum	0-2.5 plus 2.5-5 lump sum	452	346	37	1,000
Mr Hugh Edwards Director	25-30 plus 75-80 lump sum	0-2.5 plus 2.5-5 lump sum	619	492	25	900
Mr Martin Jones Director	20-25 plus 60-65 lump sum	0-2.5 plus 2.5-5 lump sum	343	240	24	900
Mr Alastair Peoples Director	20-25 plus 65-70 lump sum	22.5-25 plus 67.5-70 lump sum	431	4	**204	**222,000
Miss Linda Willson Director	15-20 plus 50-55 lump sum	0-2.5 plus 2.5-5 lump sum	314	220	20	9,100
Mr William Buckley Director (to 31 December 05)	25-30 plus 85-90 lump sum	0-2.5 plus 5-7.5 lump sum	655	523	47	2,000
Mr Jeremy Rolstone Director (to 8 March 06)	20-25 plus 60-65 lump sum	0-2.5 plus 2.5-5 lump sum	367	263	25	800
Mrs Janice James Director (from 1 January 06)	15-20 plus 50-55 lump sum	0-2.5 plus 0-2.5 lump sum	365	333	15	200
Mr Alex Fiddes Director (from 1 January 06)	10-15 plus 30-35 lump sum	0-2.5 plus 0-2.5 lump sum	152	131	7	1,000
Mr David Trussler Director (from 6 March 2006)	0-5 plus 5-10 lump sum	0-2.5 plus 0-2.5 lump sum	34	32	2	100

*** Relates to transfer from previous scheme*

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 Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

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

Cash Equivalent Transfer Values

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

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

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.

S Tetlow
Chief Executive and Accounting Officer
10 July 2006

Statement of Accounting Officer's responsibilities

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed VOSA to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction as set out in Dear Accounting Officer Guidance note [DAO (GEN) 01/06]. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of VOSA, of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

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

The Treasury has appointed the Chief Executive of VOSA as the Accounting Officer for VOSA. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting (The Stationery Office Limited).

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of VOSA's policies, aims and objectives set by Ministers, whilst safeguarding the public funds and assets for which I am personally responsible. This accords with the responsibilities assigned to me in Government Accounting.

VOSA, as a Trading Fund, must break even year on year for each of the schemes it operates. This means that the costs incurred in providing individual services, e.g. the testing of Heavy Goods Vehicles, should be matched by the income received through fees. In addition, the Agency must meet a 'return on capital' target, which is set by HM Treasury and is designed to measure the return on average resources consumed over the period from 1 April 2003 to 31 March 2008.

I seek the agreement of the Secretary of State for the policy framework in which the Agency operates, its strategic objectives and annual performance targets. This is done by obtaining the Secretary of State's approval to (i) the Framework Document (and any revisions to it) and (ii) the corporate and business plans, including annual key targets and fee levels. I submit periodic performance reports to the Driver, Vehicle & Operator Board and the Secretary of State, culminating in the Agency's Annual Report and Accounts.

VOSA's Corporate Governance arrangements benefit from active interaction with a number of individuals and bodies with knowledge and expertise to aid me in properly discharging my role as Agency Accounting Officer. Augmenting the VOSA Directing and Management Boards' assistance to me is the advice and guidance I get from the DVO Board, Agencies and DfT partners on arising issues and risks as well as offering routes to escalate risk. Group assurance is now available across DfT, from the integration of audit strategies and work plans under the DfT's Head of Internal Audit.

Finally, I receive sterling support on financial and risk items from the members and attendees of VOSA's Audit & Risk Management Committee namely:

Members
Elizabeth Bertoya/Caroline Blatchford - (changed in year outgoing/incoming) Non-executive chair;
Geraldine Terry/John Doran - (outgoing/incoming) Non-executive Finance representative;
Attendees
Paul Keane/Nigel Gale (outgoing/incoming) - National Audit Office external audit Director, supported by
Tim Smith - PKF partner and external audit contractor to NAO;
Armajit Atkar - Head of DfT Internal Audit;
Jeff Belt - Corporate Services Director (Finance);
Lin Willson - Business Strategy & Corporate Development Director (Risk & Governance) and
Tim Creedon - Head of VOSA Internal Audit - retired on 31 March 2006.

The purpose of the system of internal control

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

Capacity to handle risk

Risk management has been built into the corporate planning systems and has also been incorporated into the Agency's Quality processes and Project Management Office. The Agency fully recognises the principles for public risk management.

The Agency has not stipulated a corporate level of risk appetite; rather new projects or initiatives are assessed individually via a pipeline and enabler process. Full evaluation of their potential business impact, availability of resource and value for money of stakeholder benefits is made by the Management Board prior to project commitment. Changes to the above and risk/issue identification are functions of this board and its programme boards.

The Directing Board and Senior Managers lead risk management in their directorate commands, supported by a team of risk management co-ordinators across programme and project boards as well as product and delivery groups.

A centre of excellence for risk management to identify and spread best practice has been established within the Business Strategy & Corporate Development Directorate. Allied to this, an electronic drop box - called "2-Risky" - is available to all staff to facilitate those who might wish to comment on or expose risk issues centrally and anonymously.

Risk management guidance is available to all staff on the Agency's Intranet site. It explains the Agency's underlying approach to risk management, documents the process and its roles and responsibilities, and identifies the main reporting and escalation routes. Staff on induction and management courses receive guidance on VOSA's risk management and governance processes.

During the year, it was recognised that a potential duplication of effort existed between the roles and responsibilities of the VOSA Advisory Board and the DVO Board. As a result, and with the endorsement of the Departmental Permanent Secretary and Ministers, the Advisory Board has been abolished and issues previously dealt with by the Advisory Board are covered by a combination of the Agency Directing Board (with periodic attendance by the DVO Director General), the DVO Board and quarterly meetings between the Agency Chief Executive and Ministers.

The risk and control environment

The VOSA Directing Board has established and embedded a risk management system, which is reviewed twice during the year by the Audit and Risk Management Committee. Individual executive directors are designated risk stewards for their commands and each of the key risks contained in the corporate risk register. Stewards monitor and/or develop controls or risk treatment plans through specific groups who are responsible for the areas identified as high risk (impact and/or probability) by reviewing regular reports from designated managers detailed in the Monthly Performance Report and Papers to the Directing Board.

The second tier of risk registers is maintained by Senior Management product groups, project teams and operational or policy branches. Work to ensure that all projects, products and steering groups within this tier have robust risk management processes continues, so that the Agency can effectively identify new or emerging risks and, where possible, agree and put in place risk treatment plans.

There has been considerable progress to ensure VOSA can better manage issues that arise from its substantial commitment to change and improvement. The governance processes for the Change Programme are now channelled through the Management Board and its associated programme boards which provide enhanced coordinated focus on both strategic and operational change. Use of PRINCE II and OGC standards is inbuilt, and monitoring of project development against these is an integral element of the Programme Office role.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of this is informed by:

- the stewardship statements from my fellow executive directors stating that their commands operate with appropriate compliance and observance of our requirements for Business Planning; Risk Management & Governance; Financial Management (including contingent liabilities & investment appraisal); Audit follow-up; Procurement & Contract Management; Project Management; Business Continuity and emergency planning; Human Resources; Health and Safety; Information Technology; Fraud and whistle-blowing;
- the work of the internal auditors;
- comments made by the external auditors in their management letter and other reports; ad hoc commissioned reports from both external consultants and internal review groups; and, most crucially,
- the regular monthly performance reports from IT Partners and VOSA executive managers who have responsibility for the development and maintenance of the internal control framework and critically reporting to the Boards achievement and associated risks and issues regarding : Secretary Of State Targets; Operational performance; Quality and Improvement; Balanced Scorecards; Health and Safety; Project and Programme progress; Finance and HR performance reporting and so on.

I am advised on the effectiveness of the system of internal control by the Audit and Risk Management Committee.

The Directing Board's main purpose may be described as shaping the future of the Agency and managing both the delivery of its annual Business Plan and its corporate risks. To achieve this purpose, it meets as a collective Board through a series of corporate meetings:

- to provide the vision and values for the Agency, and agreeing the strategies and initiatives for developing and improving the business to ensure stakeholder outcomes are met; and
- to give consideration to the Agency's priorities and the allocation of appropriate resources to ensure balanced delivery of the Agency's business plan commitments.

The Agency sustains its own internal audit unit. This unit operates to Government Internal Audit Standards. The unit's functions are established by me, as Accounting Officer, in association with the Audit and Risk Management Committee. The unit operates as an independent and objective appraisal and advice service. Its primary function is to provide an opinion on risk management, internal control and governance arrangements by measuring and evaluating their effectiveness in achieving the Agency's agreed objectives. In his Annual Audit Report, the Head of Internal Audit was able to offer me his professional opinion of SUBSTANTIAL assurance and "Risk management, governance arrangements and control systems generally were found to be well established and working effectively, but some weaknesses were identified. Opportunities to improve working practices were or are being taken by management as a result of their implementing audit recommendations". Furthermore he adds "that the systems of governance and internal control are generally robust and the Agency continues to operate effectively without major weaknesses which might put the organisation at significant business risk".

S Tetlow
Chief Executive and Agency Accounting Officer

10 July 2006

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

I certify that I have audited the financial statements of the Vehicle and Operator Services Agency (VOSA) for the year ended 31 March 2006 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.

Respective responsibilities of VOSA, the Chief Executive and auditor

The Vehicle and Operator Services Agency and Chief Executive are responsible for preparing the Annual Report, 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 Vehicle and Operator Services Agency's and Chief Executive's responsibilities.

My responsibility is to audit the financial statements 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if VOSA 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 46 to 49 reflects VOSA's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of VOSA'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 only the Annual Report, the Directors' Report, the unaudited part of the Remuneration Report and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Fund Act 1973 and directions made thereunder by HM Treasury, of the state of VOSA's affairs as at 31 March 2006 and of its deficit 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 Fund Act 1973 and HM Treasury directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

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

13 July 2006

Income and Expenditure account for the year ended 31 March 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Income from operations					
Income from activities	2	**131,707**		122,716	
Other operating income	2	**20,197**		21,573	
Total income from operations			**151,904**		144,289
Expenditure					
Staff costs	4	**(85,671)**		(78,018)	
Early retirement scheme costs	14	**(1,409)**		(43)	
Depreciation	6	**(6,330)**		(6,387)	
Impairment	6	**(124)**		(463)	
Other operating charges	3	**(67,675)**		(51,387)	
			(161,209)		136,298
Operating (deficit)/surplus			**(9,305)**		7,991
Interest receivable and similar income			**4,250**		4,289
Net (deficit)/surplus on ordinary activities			**(5,055)**		12,280
Loss on disposal of Fixed Assets	6		**(3)**		(22)
Interest payable	5a		**(3,303)**		(2,809)
Dividend payable	5b		**0**		0
Retained (deficit)/surplus for the year			**(8,361)**		9,449
Retained surplus brought forward			**29,545**		20,096
Retained surplus carried forward			**21,184**		29,545

The income and operating surplus shown above are derived entirely from continuing activities.

The notes on pages 57 to 75 form part of these accounts.

Statement of total recognised gains and losses

	2006 £'000	2005 £'000
(Deficit)/surplus for the financial year	**(8,361)**	9,449
Unrealised surplus on revaluation of assets (see Note 6)	**3,754**	3,461
Total recognised losses & gains relating to the year	**(4,607)**	12,910

Balance Sheet as at 31 March 2006

	Notes	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Fixed assets					
Tangible assets	6		**101,596**		81,500
Current assets					
Debtors	7	**26,177**		7,629	
Cash in hand and at bank	13	**106,783**		108,494	
		132,960		116,123	
Creditors					
Amounts falling due within one year	8a	**(81,966)**		(51,246)	
Net current assets			**50,994**		64,877
Creditors					
Amounts falling due after more than one year	8b		**(37,000)**		(45,514)
Provision for liabilities and charges	14		**(1,168)**		(176)
Net assets			**114,422**		100,687
Financed by:					
Capital reserves					
Public Dividend Capital	15	**28,983**		28,983	
Loans from the Secretary of State	17	**54,037**		35,695	
Revaluation Reserve		**10,218**		6,464	
Income and Expenditure account		**21,184**		29,545	
			114,422		100,687

S Tetlow
Chief Executive and Accounting Officer
10 July 2006

The notes on pages 57 to 75 form part of these accounts.

Cash flow statement for the year ended 31 March 2006

	Notes	2006 £'000	2005 £'000
Reconciliation of operating (deficit)/surplus to net cash inflow from operating activities			
Operating (deficit)/surplus		(9,305)	7,991
Depreciation		6,330	6,387
Impairment	6	124	463
Net movement in early retirement provision	14	992	(150)
Increase in debtors before interest	7	(18,596)	(5,881)
Increase in creditors	8a/b	20,322	5,265
Net cash (outflow)/inflow from operating activities		(133)	14,075
CASH FLOW STATEMENT			
Net cash (outflow)/inflow from operating activities		(133)	14,075
Returns on investments and servicing of finance	12a	995	1,397
Capital expenditure	12b	(22,670)	(14,875)
Dividend paid		0	0
Net cash (outflow)/inflow before financing		(21,808)	597
Financing	12c	20,097	2,658
(Decrease)/increase in cash	13	(1,711)	3,255
Reconciliation of net cash flow to movement in net funds (note 13)			
(Decrease)/increase in cash in the period		**(1,711)**	3,255
Repayment of loan from Secretary of State		**2,933**	3,186
Capital element of finance leases		**170**	156
New loan from Secretary of State issued in year		**(23,200)**	(6,000)
Change in net funds		**(21,808)**	597
Original maturity loan converted into repayment loan		**(14,246)**	0
Net funds at 1 April		**84,808**	84,211
Net funds at 31 March		**48,754**	84,808

The notes on pages 57 to 75 form part of these accounts.

Reconciliation of movements in capital and reserves (Government Funds)

	Public Dividend Capital £'000	Vesting Loan £'000	Revaluation Reserve £'000	Income and Expenditure Account £'000	Total £'000
Government Funds at 1 April 2005	28,983	35,695	6,464	29,545	100,687
Deficit for the year	0	0	0	(8,361)	(8,361)
Surplus on asset revaluation	0	0	3,754	0	3,754
New loans vested in year	0	23,200	0	0	23,200
Loan repaid in year	0	(880)	0	0	(880)
Transfer to Short Term Creditors	0	(3,978)	0	0	(3,978)
Total surpluses and deficits recognised since last annual report	0	18,342	3,754	(8,361)	13,735
Government Funds at 31 March 2006	28,983	54,037	10,218	21,184	114,422

The notes on pages 57 to 75 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM 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 FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of VOSA for the purpose of giving a true and fair view has been selected. VOSA's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

a. Historical cost convention

The accounts are prepared under the historical cost convention, modified to include the revaluation of tangible fixed assets, in a form directed by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973. They comply with the accounting and disclosure requirements of the Companies Act 1985 as amended, and the accounting standards issued or adopted by the Accounting Standards Board, in so far as those requirements are appropriate.

b. Fixed assets

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

The valuations are described in note 6. Surpluses and temporary diminutions on revaluation are taken to the revaluation reserve; permanent diminutions in the value of fixed assets are initially charged against previous revaluation surpluses on such assets with any further diminution in value being charged directly to the income and expenditure account.

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

Profit or loss on disposal of all categories of fixed asset is calculated on the revalued amount.

The minimum level for capitalisation as a tangible fixed asset is £500. Assets purchased in the year, which are in the course of construction, are classified as such (see note 6).

c. Depreciation

Properties

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

Freehold buildings 17 - 40 years
Leasehold property is fully written down over the term of the lease with the exception of Chadderton where the lease is 999 years and the leasehold property is written down over 60 years.
Freehold land is not depreciated.

Other categories

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

Plant, equipment & vehicles	5 - 10 years
Leased equipment	Over the life of lease
Computer hardware	3 years
Bespoke computer software	2 - 10 years

Assets in the course of construction are not depreciated until commissioned.

d. Leasing

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease, with an equivalent liability categorised as appropriate under creditors due within and after more than one year.

The interest element of the rental obligations is charged to the income and expenditure account over the period of the lease.

Operating lease rentals/incentives are charged/credited to the Income and Expenditure account on a straight line basis over the lease term.

e. Research and Development

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

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

f. Pension Scheme and Early Retirement Scheme

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) in respect of their pensions. The PCSPS is an unfunded multi-employer defined benefit scheme but VOSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ***(www.civilservice-pensions.gov.uk).*** Payment is made by VOSA into the Consolidated Fund of such sums to cover the accruing liabilities of the Treasury in respect of Superannuation benefits for persons who have been employed in the funded operations, and in respect of the administrative expenses attributable to the liabilities and their discharge.

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

g. Value Added Tax

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

h. Income recognition

Income for applications for operator licences, the granting of licences and the registration of bus routes is recognised at the time of application, grant etc. For all testing activities income is recognised at the time a test is performed. For all vehicle disc and continuation fees, income is apportioned equally over the length of the licence dependent on whether the operator has chosen to take up the option of a 1 year or 5 year payment basis. For all other goods and services income is recognised at the point of sale. Fees received in advance for which tests have yet to be performed or licences issued at the balance sheet date are shown as creditors.

i. Central funding

Funds received from Central Government budgets or other Departmental sources are released to the income and expenditure account in year against expenditure incurred, or in the case of capitalised assets, amortised over the useful economic life of the asset.

j. Foreign currency translation

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

2. Income and surplus/(deficit) on activities

The following information is produced for Fees and Charges purposes and does not constitute segmental reporting under Statement of Standard Accounting Practice 25. Income represents the revenue received for services provided by VOSA. All activities with the exception of a small element of Single Vehicle Approval work were carried out in the United Kingdom.

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

	2005-06		2004-05		**Cumulative**	
	Income	**Surplus/ (Deficit)**	Income	Surplus/ (Deficit)	**Income**	**Surplus/ (Deficit)**
Activity	**£'000**	**£'000**	£'000	£'000	**£'000**	**£'000**
Testing	**57,616**	**1,751**	51,594	1,404	**527,190**	**(6,492)**
Administration of MOT testing scheme and standards control	**35,424**	**(5,860)**	36,072	12,537	**251,980**	**45,659**
Enforcement work	**24,794**	**(1,569)**	20,608	(4,999)	**264,457**	**(11,466)**
Licensing & Compliance	**13,873**	**(1,272)**	14,442	251	**37,391**	**(300)**
Total	**131,707**	**(6,950)**	122,716	9,193	**1,081,018**	**27,401**

The (deficit)/surplus is stated after charging £200,000 (2004-05 £202,000) being the amortisation of early retirement costs. Additionally the MOT scheme bears the cost of the MOT Computerisation project.

The cumulative position shows the scheme performance for the schemes operated by what was VI since it was established as a Trading Fund on 1 April 1991. Cumulative position is not shown on the schemes operated by the TAN division of DfT as prior years were accounted for in the DfT Annual Accounts.

Other operating income

Other operating income relates predominantly to funding received to enable VOSA to carry out projects and policy objectives that are assigned to it by the Department for Transport. This is included within the surplus/(deficit) shown above, but is separately shown on the face of the Income and Expenditure Account.

3. Other operating charges

The major constituent parts of other operating charges are as follows:

	2005-06 £'000	2004-05 £'000
Hire of plant and machinery	**242**	270
Rent	**3,504**	2,455
Rates	**2,238**	2,501
Estate running and maintenance costs	**5,888**	*6,728
Equipment maintenance costs	**1,986**	2,271
Postage and stationery	**3,162**	3,831
Travel and subsistence	**7,160**	6,675
Telecommunication costs	**1,543**	1,462
Computing	**30,069**	17,631
Audit fee - audit services	**50**	53
Rental income	**(890)**	(1,148)

**2004-05 figure restated to include expenditure on weighbridge sites*

4. Staff costs

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

	2005-06 £'000	2004-05 £'000
Wages and salaries	**64,900**	62,058
Agency staff & Consultants	**4,615**	3,095
Social Security costs	**4,860**	4,836
Other pension costs	**11,296**	8,029
Total staff costs	**85,671**	78,018
Traffic Commissioners & Deputy Traffic Commissioners	**1,493**	1,049

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but VOSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ***(www.civilservice-pensions.gov.uk).***

For 2005-06, employer contributions of £11,248,000 were payable to the PCSPS (2004-05 £7,984,000) at one of four rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will increase from 2006-07 to between 17.1% and 25.5%. Employer contributions of £48,000 (2004-05 £45,000) were paid to one or more of a panel of four appointed stakeholder pension providers.

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

		2005-06 Number	2004-05 Number
VOSA Pay Level	**Broad category of staff in band**		
1	Handypersons	**34**	40
2	Testers, Assistant Administrative Officers,	**258**	309
3	Vehicle Inspectors, Administrative Officers, Apprentices	**1,016**	1,009
4/5	Vehicle and Traffic Examiners, Executive Officers	**911**	918
6	Senior Vehicle Examiners, Senior Traffic Examiners, Higher Executive Officers	**321**	304
7	Area and Regional Managers, Senior Executive Officers	**93**	87
8/9	Senior Management	**43**	36
10	Directors	**4**	3
	Senior Civil Servants	**4**	4
	Average number of employees	**2,684**	2,710
	Average number of Traffic Commissioners and Deputy Traffic Commissioners support (shown in man years)	**10**	10
	Agency and Consultancy support (shown in man years)	**71**	64
	Secondments Inward (shown in man years)	**3**	1
	Secondments Outward (shown in man years)	**(6)**	(1)

5. Interest and dividend payable

a. Interest payable

	2005-06 £'000	2004-05 £'000
On original vesting loan	**1,478**	1,478
On loan issued in 1996 - 1997	**55**	60
On loan issued in 1999 - 2000	**0**	16
On loans issued in 2000 - 2001	**14**	63
On loan issued in 2001 - 2002	**0**	15
On loans issued in 2003 - 2004	**762**	820
On loans issued in 2004 - 2005	**262**	80
On loans issued in 2005 - 2006	**470**	0
In lieu of dividend on Public Dividend Capital in respect of current year	**252**	252
Interest payable to the Secretary of State	**3,293**	2,784
Interest payable on Finance Lease	**10**	25
Total interest payable	**3,303**	2,809

When the VI Trading Fund was established in 1991, the opening Balance Sheet had more Public Dividend Capital than Long Term Loan. The normal gearing for a trading fund opening balance sheet is an equal proportion of Public Dividend Capital and Long Term Loan. The Trading Fund agreed to pay the Treasury £252,000 each year to cover interest foregone on the loan, which has continued in VOSA.

Finance lease

During 1999-2000 a long term leasing arrangement for new telephone exchanges was entered into. This leasing arrangement was increased during both 2002-03 and 2003-04 when additional equipment was installed. No additions were made during 2005-06.

b. Dividend payable

VOSA's average rate of return on capital to March 2006 was 6.7% against the financial target of an average 3.5%, as stated in Annex A on page 76 of the Annual Report. A dividend is payable from this target. This dividend is limited to the annual average target of 3.5%.

	2005-06 £'000	2004-05 £'000
Calculated level of return on average assets at 3.5%	**3,770**	3,236
Interest paid to the Secretary of State	**(3,293)**	(2,784)
Loan Capital repayment	**(2,933)**	(3,186)
Dividend payable	**(2,456)**	(2,734)

The calculated level of return to the Treasury is £3,770,000 based on the target average return of 3.5%. As the interest paid on long term loans of £3,293,000 and the capital repayment in year of £2,933,000 total more than the calculated level of return, no dividend is payable in respect of the 2005-06 financial year.

6. Tangible fixed assets

	Free-hold Land and Buildings	Long Lease-hold Land and Buildings (>50 yrs)	Short Lease-hold Land and Buildings	Plant and Equip-ment	Vehicles	Finance Leased Equip-ment	Computer Equipment	Assets in course of construc-tion	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation									
At 1 April 2005	87,727	12,209	3,641	20,603	4,162	900	23,371	6,525	159,138
Additions	1,756	65	100	1,423	545	0	842	18,087	22,818
Disposals	0	0	0	0	(24)	0	0	0	(24)
Reclassification	9,329	0	51	46	0	0	183	(9,609)	0
Revaluation	3,236	454	(29)	115	25	0	(203)	0	3,598
At 31 March 2006	102,048	12,728	3,763	22,187	4,708	900	24,193	15,003	185,530
Accumulated depreciation									
At 1 April 2005	37,364	1,065	1,019	13,268	2,393	741	21,788	0	77,638
Charge for year	1,676	199	285	1,759	847	159	1,405	0	6,330
Disposals	0	0	0	0	(2)	0	0	0	(2)
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation depreciation	0	0	0	40	7	0	(79)	0	(32)
At 31 March 2006	39,040	1,264	1,304	15,067	3,245	900	23,114	0	83,934
Net Book Value At 31 March 2006	63,008	11,464	2,459	7,120	1,463	0	1,079	15,003	101,596
At 1 April 2005	50,363	11,144	2,622	7,335	1,769	159	1,583	6,525	81,500

The control and management of freehold land and buildings is vested in VOSA as if legal transfer had been effected. The useful economic lives of these assets were assessed during 2004-05 at 40 years from 1 August 1988, when these assets were first vested in the Agency. Consequently, the net book value at 1 April 2004 has been depreciated over the remainder of the useful economic life. The only exception to this is where it is not envisaged that the property will be retained for the full 40 years, in which case depreciation over the 20 year useful life has continued.

20 percent of VOSA's land and buildings were valued at 1 October 2005 by Powis Hughes and Associates on the basis of market value for existing use in accordance with RICS guidance. Plant, vehicles and computing assets were revalued by using appropriate indices.

All properties were occupied by VOSA and the basis of valuation was open market for existing use. It is the view of the valuer that, where diminutions in value have occurred, they are not of a permanent nature. The net surplus on the revaluation of land and buildings has been credited directly to the revaluation reserve. Diminutions in value in respect of all other categories of assets are considered to be of a permanent nature and the deficit arising is charged firstly to the revaluation reserve to the extent of any surplus brought forward in respect of those asset categories and any further deficit is charged to the income and expenditure account.

The net surplus arising in the year is £3,630,000 (2005 £2,998,000 surplus), of which an amount of £3,754,000 (2005 £3,461,000) has been credited to the revaluation reserve. The deficit of £124,000 on computing equipment (2005 £463,000 on plant and equipment, and computing equipment) has been charged to the income and expenditure account.

Assets in the category of vehicles with a net book value of £22,000 were sold for £19,000. This loss has been treated as an exceptional item on the income and expenditure account.

7. Debtors

	31 March 2006 £'000	31 March 2005 £'000
Amounts falling due within one year:		
Trade debtors	**3,445**	1,477
Other debtors	**2,668**	1,417
Loans to staff	**160**	154
Prepayments and accrued income	**4,935**	4,189
Sub total (cash flow movement)	**11,208**	7,237
Accrued interest	**344**	392
Total falling due within one year	**11,552**	7,629
Amounts falling due after more than one year:		
Prepayments and accrued income	**14,625**	0
Total debtors	**26,177**	7,629

The amounts shown as prepayments and accrued income reflect payments in 2005-06, designed to secure future benefits through phased cost reductions over the remaining years of a 10 year contract.

8. Creditors

a. Amounts falling due within one year:

	31 March 2006 £'000	31 March 2005 £'000
Fees in advance	**28,783**	16,359
Other creditors	**25,317**	25,732
Accruals and deferred income	**23,186**	6,373
Sub total (cash flow movement)	**77,286**	48,464
Capital accruals	**688**	559
Long term loan due within one year	**3,978**	2,053
Finance lease due within one year	**14**	170
Dividend payable	**0**	0
Total creditors	**81,966**	51,246

Included within other creditors is an amount of £19,879,000 (2004-05 £18,226,000) in respect of funding received from the Department for Transport for various projects. Monies are received to cover the entire cost of the project and these are credited to the Income and Expenditure Account to match the expenditure incurred, or amortised over the useful lives of assets acquired for use within the project. However, as the funding is allocated to projects and not assets, no specific capital grant reserve is required.

b. Amounts falling due after more than one year:

	31 March 2006 £'000	31 March 2005 £'000
Fees in advance (cash flow movement)	**37,000**	45,500
Finance lease due after one year	**0**	14
Total creditors falling due after one year	**37,000**	45,514

9. Intra-Government balances

	2006			2005		
	Debtors	**Creditors due within 1 year**	**Creditors due after 1 year**	Debtors	Creditors due within 1 year	Creditors due after 1 year
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Balances with other Central Government bodies	**1,201**	**25,636**	**0**	2,385	21,942	0
Balances with Local Authorities	**83**	**0**	**0**	74	0	0
Balances with Public Corporations and Trading Funds	**680**	**0**	**0**	545	0	0
Balances with bodies external to Government	**24,213**	**56,330**	**37,000**	4,625	29,304	45,514
Total	**26,177**	**81,966**	**37,000**	7,629	51,246	45,514

10. Finance leases

Obligations under finance lease agreements are repayable as follows:

	31 March 2006 £'000	31 March 2005 £'000
Within one year	**14**	170
Between one and two years	**0**	14
Total	**14**	184

Obligations under finance lease agreements are secured on the assets concerned.

11. Average return on capital

The average return on net assets over the period 1 April 2003 to 31 March 2006 was 6.7%. This compares with the target, as stated in Annex A on page 76 of the Annual Report, of an average of at least 3.5% over the period 1 April 2003 to 31 March 2008.

12. Notes to the cash flow statement

a. Return on investments and servicing of finance	**2006 £'000**	2005 £'000
Interest receivable in year	**4,250**	4,289
Interest accrued at 1 April	**392**	309
Interest accrued at 31 March	**(344)**	(392)
Interest received in year	**4,298**	4,206
Interest paid in year	**(3,303)**	(2,809)
Net interest received	**995**	1,397

b. Capital expenditure	**2006 £'000**	2005 £'000
Fixed asset additions	**(22,818)**	(14,690)
Capital creditors at 1 April	**(559)**	(752)
Capital creditors at 31 March	**688**	559
Payments to acquire fixed assets	**(22,689)**	(14,883)
Receipts from sale of fixed assets	**19**	8
Net payments to acquire fixed assets	**(22,670)**	(14,875)

c. Financing	**2006 £'000**	2005 £'000
Repayment of loan from Secretary of State	**(2,933)**	(3,186)
New loan from Secretary of State - note 17	**23,200**	6,000
Capital repayment of finance lease	**(170)**	(156)
Net Financing	**20,097**	2,658

13. Analysis of changes in net funds

	At 1 April 2005 £'000	Cash Flow £'000	Other Changes £'000	**At 31 March 2006 £'000**
Cash in hand, and at bank	**108,494**	(1,711)	0	**106,783**
Loans due within one year	**(2,053)**	2,933	(4,858)	**(3,978)**
Loans due after one year	**(21,449)**	(23,200)	(9,388)	**(54,037)**
Finance lease due within one year	**(170)**	170	(14)	**(14)**
Finance lease due after one year	**(14)**	0	14	**0**
Total	**84,808**	(21,808)	(14,246)	**48,754**

In previous years the net funds position excluded the vesting loan of £14,246,000 as this was a maturity loan with no capital repayments. The loan was converted at the start of 2006-07 into a 20 year repayment loan, and has now been included in the net funds figures shown above.

14. Provision for liabilities and charges

	Early Retirement Total Costs £'000
At 1 April 2005	**176**
Provision in year	**1,409**
Payments during the year	**(417)**
At 31 March 2006	**1,168**

Under VOSA's Early Retirement scheme an additional provision of £1,409,000 was made in year (2004-05 £43,000) for retirements or inflationary pension increases. A total of £417,000 (2004-05 £193,000) was transferred from the provision to fund pensions and related benefits payment. Seven people voluntarily retired early during 2005-06 on ill-health grounds with no additional accrued pension liabilities in the year.

15. Public Dividend Capital

	2006 £'000	2005 £'000
As at 1 April	**28,983**	28,983
As at 31 March	**28,983**	28,983

Public Dividend Capital of £19,100,000 was issued to the Trading Fund on 1 April 1991. This represented 57% of the value of the assets vested at that date. In 1996-97 an additional Public Dividend Capital of £1,231,000 was issued. This represented 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate. Additional PDC was issued of £8,652,000, being 50% of the vesting capital of the new Trading Fund Order upon the merger of TAN and VI on 1 April 2003. The total Public Dividend Capital issued at 31 March 2006 is £28,983,000.

16. Financial instruments

VOSA financial instruments comprise principally of loans from the Secretary of State, cash and various other items that arise directly from its trading operations such as trade debtors, fees in advance and other creditors. VOSA manages liquidity risk within the framework of operating as a trading fund within the Department for Transport, such that income is generated sufficient to meet expenditure on ongoing activities. Additional funding requirements arising from new initiatives, etc. being placed on VOSA are sought from the Department for Transport prior to any expenditure being committed.

a. Interest rate risk

VOSA finances its operations through the loans from the Secretary of State (for which detailed disclosure can be found in note 17) and finance leases (for which detailed disclosure can be found in note 10).

b. Foreign currency risk

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

c. Financial rate risk profile of financial assets and financial liabilities

i. Financial assets

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

ii. Financial liabilities

The only significant liabilities held by VOSA, other than short term creditors and fees in advance, were the loans from the Secretary of State. The maturity profile is shown below:

	31 March 2006 £'000	31 March 2005 £'000
In one year or less, or on demand	**3,978**	2,053
In more than one year but less than two years	**3,978**	15,965
In more than two years but no more than five years	**11,935**	5,159
More than five years	**38,124**	14,571
Total	**58,015**	37,748

The detail regarding the interest rates of the specific loans can be found in note 17.

The above disclosures highlight how VOSA has structured its financial liabilities in order to provide both adequate and flexible financing.

17. Loans from the Secretary of State

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

	Long Term Repayment Due	
	Within one year (included in Creditors) £'000	**After one year (included in Capital & Reserves) £'000**
Loans outstanding at 31 March 2006 comprise:		
Replacement Vesting Loan 20 year maturity loan at 4.55% interest	712	13,534
Loan issued in 1996 - 1997 20 year repayment loan at 8.25% interest	62	554
Loan issued in 2003 - 2004 15 year repayment at 4.35% interest	581	6,391
Loan issued in 2003 - 2004 15 year repayment at 4.9% interest	677	7,784
Loan issued in 2004 - 2005 15 year repayment at 4.6% interest	400	5,000
Loans issued in 2005 - 2006 15 year repayment at 4.4% interest	880	11,440
Loan issued in 2005 - 2006 15 year repayment at 4.5% interest	666	9,334
Total of maturity and repayable loans	3,978	54,037

A 15-year maturity loan of £14,246,000 at 10.375% was issued to the Trading Fund from the Department of Transport when it became a Trading Fund on 1 April 1991. This represented 43% of the value of the assets vested at that date. This loan converts into a 20 year repayment loan at 4.55% from the start of the 2006-07 financial year.

In 1996-97 a 20-year repayment loan of £1,230,000 at 8.25% was issued. This represents 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate.

During 2003-04, on the merger of VI and TAN, a 15-year repayment loan of £8,653,000 at 4.35% was issued representing 50% of the value of net assets vested in VOSA when it was formed on 1 April 2003.

During 2003-04 a 15-year repayment loan of £10,000,000 at 4.9% was provided to enable the commencement of a programme to refurbish the testing station estate of VOSA.

During 2004-05 a 15-year repayment loan of £6,000,000 at 4.6% was provided to develop a Commercial Customer Portal to facilitate the provision of e-enabled services for all commercial customers of the DVO Agencies.

During 2005-06 two 15-year repayment loans were issued at 4.4%, a loan of £7,500,000 was provided to further the refurbishment of the VOSA estate and a loan of £5,700,000 for the continuation of work on the Commercial Customer Portal to facilitate the provision of e-enabled services for all commercial customers of the DVO Agencies. A 15 year repayment loan of £10,000,000 at 4.5% was issued for estate improvements at the end of the year.

All loans are unsecured.

18. Capital commitments

There were no capital commitments at the end of either the 2005-06 or the 2004-05 financial years.

19. Other commitments

As at 31 March 2006 VOSA had annual commitments under operating leases as follows:

	2006 £'000 Land and Buildings	**2006 £'000 Other**	2005 £'000 Land and Buildings	2005 £'000 Other
Expiry date:				
Within one year	**1,205**	0	759	0
Between one and five years	**1,304**	0	966	0
After more than five years	**560**	9,284	1,139	7,275
Total	**3,069**	9,284	2,864	7,275

20. Related party disclosures

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

In addition, VOSA has had a small number of transactions with other Government Departments and other central government bodies. Most of these transactions have been with the Treasury Solicitors Department.

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

21. Private Finance Initiative

In February 2000 a contract, under the Private Finance Initiative (PFI), was entered into with Siemens Business Services (SBS), for the provision of a computerised service for MOT testing and administration. Roll-out was completed on 29 March 2006, slightly ahead of schedule, and volume-based payments to SBS have commenced for the delivery of this service.

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

22. Contingent liabilities

There were no contingent liabilities at 31 March 2006.

23. Post balance sheet events

There have been no events since the end of the financial year which would affect the understanding of these financial statements.

Treasury Minute setting VOSA's further financial objectives

Vehicle and Operator Services Agency

Setting of further financial objectives for the period 1 April 2003 to 31 March 2008

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

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

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

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

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

2. A trading fund for VOSA was established on 1 April 2003 under VOSA Trading Fund Order 2003 (SI 2003 No. 942).

3. The Secretary of State for Transport, being the responsible Minister for the purposes of section 4(1)(a) of the 1973 Act, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by VOSA for the period from 1 April 2003 to 31 March 2008 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.

(Treasury Minute dated 11 March 2004)

Glossary

ACPOS	Association of Chief Police Officers in Scotland	**MOT**	Annual statutory test for cars and motorcycles
ADR	International arrangement for the carriage of dangerous goods	**MSVA**	Motorcycle Single Vehicle Approval scheme
AE	Authorised Examiner	**NAPTAN**	National Passenger Transport Access Nodes (database)
ANPR	Automatic Number Plate Recognition	**NT**	Nominated Tester
AUTOFORE	Study on the Future Options of Roadworthiness in the European Union	**OCRS**	Operator Compliance Risk Score
BTEC	Business and Technical Education Council	**OSS**	Operator Self-Service
CCIS	Co-operative Crash Injury Study	**PCE**	Post-Collision Examination
CCP	Commercial Customer Programme	**PG**	Performance Gain
CORTE	Confederation of Organisations in Road Transport Enforcement	**PSA**	Public Service Agreement
DfT	Department for Transport	**PSG**	Professional Skills in Government
Digitach	Digital Tachograph(s)	**PSV**	Public Service Vehicle
DSA	Driving Standards Agency	**PtS**	Power to Stop
DVLA	Driver and Vehicle Licensing Agency	**RIU**	Regional Intelligence Unit
DVO	Driver, Vehicle and Operator Group	**SAU**	Strategic Analysis Unit
ECR	Euro Contrôle Route	**SCS**	Senior Civil Service
EVL	Electronic Vehicle Licensing	**SVA**	Single Vehicle Approval
ESVA	Enhanced Single Vehicle Approval	**T&S**	Travel and Subsistence
EU	European Union	**TAO**	Traffic Area Office
GFP	Graduated Fixed Penalties	**TCIS**	Truck Crash Injury Study
HA	Highways Agency	**TCs**	Traffic Commissioners
HGV	Heavy Goods Vehicle	**TE**	Traffic Examiner
HGVTS	Heavy Goods Vehicle Testing Station	**TRANSEC**	Transport Security and Contingencies team
HR	Human Resources	**TRL**	Transport Research Laboratory
HSE	Health and Safety Executive	**TXC**	TransXchange
IDELSY	Initiative for Diagnosis of Electronic Systems	**VCA**	Vehicle Certification Agency
IiP	Investors in People	**VE**	Vehicle Examiner
KSI	Killed or seriously injured	**VERONICA**	Vehicle Event Recording based on Intelligent Crash Assessment
LGV	Light Goods Vehicle	**VfM**	Value for Money
LEZ	Low Emission Zone (London)	**VIC**	Vehicle Identity Check
MCD	Mobile Compliance Device	**WIMS**	Weigh in Motion Sensor
MORI	Market and Opinion Research International		

Notes

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