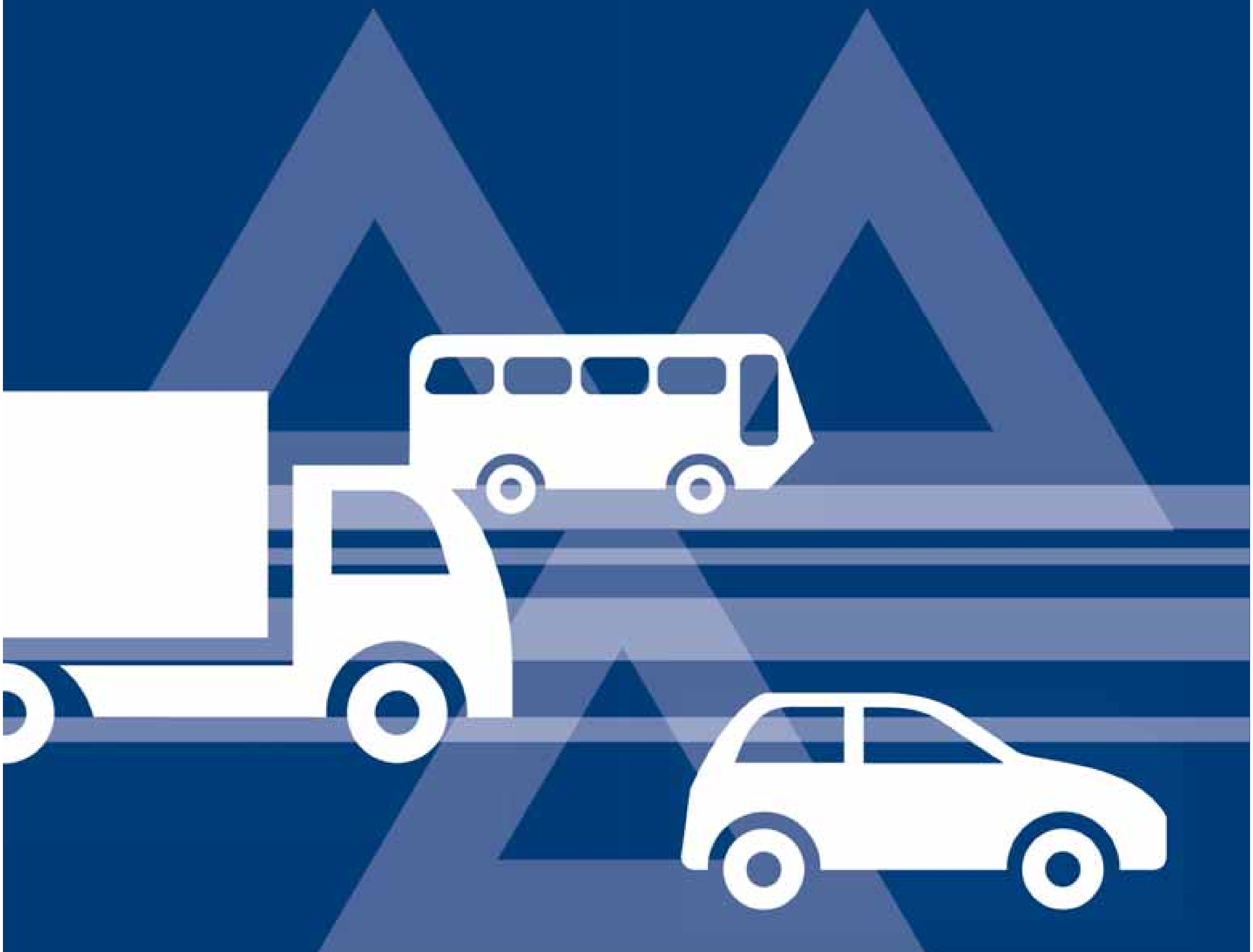
VOSA

Vehicle & Operator Services Agency

Annual Report 2007/08



An executive agency of the Department for Transport

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

Vehicle and Operator Services Agency

Annual Report and Accounts 2007/08

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

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

HC925 London Stationery Office £18.55

Highlights of 2007/08

- MOT Computerisation winning two prestigious awards and a 'Highly Commended'
- Prince Michael International Road Safety Award for our Fresnel Lens initiative

- 70% improvement in targeting of enforcement compared with 2004/05
- New state of the art test station at Avonmouth, Bristol
- 80% of HGV and PSV tests booked within 1 day of customer requested date
- Transport Times National Transport Award for our work to link Automatic Number Plate Recognition technology with Weigh in Motion Sensors
- Achievement of ISO 9001:2000 accreditation for our Vehicle Safety Branch

ISBN:978 0102957754

Contents

Chief Executive's Statement

We've delivered a terrific amount in a year that has been full of challenges, particularly in the face of new IT restrictions imposed on us in response to tighter Government data security.

We performed well against challenging targets set by the Secretary of State achieving seven of the ten and narrowly missing two of the other three. We have made good progress in streamlining our testing and administrative systems, reducing average test times by 16% since October 2007, with a direct benefit to our customers of less time off the road.

In the middle of the year our forward booking times were adversely affected by shortages of staff at some of our stations, especially in the South East. I am pleased to say that we have largely overcome these challenges with current forward booking times averaging 10 days or less - the best we have ever achieved.

Increased targeting of non-compliant drivers and commercial vehicles has led to a 70% improvement in roadworthiness and traffic prohibitions since 2004/05. We now look forward to an increasingly risk-based approach to targeting non-compliant MOT garages following a comprehensive assessment of 19,000 garages carried out during the year.

We delivered award-winning electronic services. These included the first commercial vehicle test booking on-line which was trialled by a selection of customers and will be rolled out to all operators during the coming year following very positive feedback.

We have won other awards this year. We are particularly pleased with awards for our combined and effective use of Automatic Number Plate Recognition and Weigh in Motion Sensors in tackling non-compliant commercial vehicles, and for MOT Computerisation with its benefits in enabling cheaper transactions for British businesses.

Over the last five years we have invested over £40m in an extensive modernisation programme, including the recent completion of a new state of the art test station in Avonmouth, Bristol, which is our first eco-friendly station. With improved accessibility of our testing facilities at the forefront of planning, 80% of this station's customers are now within a 3 mile radius. Similarly, we believe our centralised licensing operations are now delivering a much more efficient and responsive service than the previous regionally-based system.

Following the publicised data losses across Government, we have been required to implement urgently a number of measures to improve the protection of data we handle. We successfully completed laptop encryption by mid March, enabling a prompt return to mobile working.

None of this would have been possible without the support and hard work of our employees particularly in the way they responded to the changes in the implementation of new information security measures. This year we introduced Values awards to recognise staff who have gone the extra mile to make a difference. All this great effort has also been rewarded with regaining our IiP accreditation.

DfT have completed a feasibility study to assess different organisational options for the future of VOSA. With that work now completed, a clear agenda has been set by the Secretary of State to take forward a public sector VOSA.

Introduction

About the Vehicle and Operator Services Agency (VOSA)

VOSA forms part of the Safety, Service Delivery and Logistics (SSDL) Group within the Department for Transport. We work with: the Department for Transport as owner of the Agency; Traffic Commissioners; trade associations; vehicle owners and operators; MOT garages; vehicle manufacturers; importers and kit car builders; the media; the general public; VOSA trade unions; and members of other organisations interested in the Agency's work.

VOSA's activities contribute to Government goals supported by the SSDL Group's strategic outcomes. In 2007/08 we contributed to the following outcomes:

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

About this report

This Annual Report and Accounts is the principal means for formally reporting to Ministers and Parliament on VOSA's performance and its statutory financial statements. It covers 1 April 2007 until 31 March 2008 and reports on the activities laid out in the 2007/08 Business Plan.

The complete Annual Report and Accounts has five sections, including:

- A narrative report on performance for the year relative to our 2007/08 Business Plan including our performance against Secretary of State Targets
- Directors' Report
- Management Commentary including a Forward View
- Remuneration Report
- Annual Accounts

There are six main sub-sections to the narrative report which detail our activities relating to the strategic outcomes listed above and mirroring the structure of our 2007/08 Business Plan.

Performance against Secretary of State Targets

Our performance is reflected within our Secretary of State Targets. These are the primary measure of our performance.

We achieved 7 of our 10 Secretary of State Targets as shown in summary in the table below. Details can be found throughout the rest of this section of the report.

Effective service to customers	Result
• Maintain or improve customer satisfaction (see page 10) • Improved on the previous year's achievement or maintained satisfaction at or above 90%	**Achieved**
• Increase range of electronic services available to customers (see page 11) • Delivered portfolio of information services: - Operator Compliance Risk Score reports - Test History Maintenance reports - Vehicle Encounter reports • On-line vehicle test bookings service available to commercial customers	**Achieved**
Improved road safety	**Result**
• Improve the consistency of vehicle testing services across the country (see page 12) • 1/3rd reduction in variation of the initial test fail rates from the 2006/07 national average whilst maintaining quality test standards NB: Also applies to 'Effective service to customers'	**Not achieved**
• Improve the quality and consistency of the private vehicle testing service to the public (see page 13) • Delivered a risk-based enforcement system to target the serious and serially non-compliant Vehicle Testing Stations (VTS) NB: Also applies to 'Effective service to customers' and 'Better regulation'	**Achieved**
• Contribute to improved road safety through better targeting on non-compliant vehicles and drivers (see page 14) • 65% improvement in targeting of enforcement action at the roadside compared with 2004/05 • 35% increase in the number of *dangerous* vehicles and drivers taken off the road compared with 2004/05 NB: Also applies to 'Better Regulation' and 'Reduced environmental impact, crime and anti-social behaviour'	**Achieved**

Improved journey time reliability	Result
• Contribute to more reliable journeys on the strategic road network, improved road safety, minimised congestion (see page 16) • 20% increase in volumes of checks nationally on 'at risk' goods vehicles on international journeys compared with 2006/07 NB: Also applies to 'Reduced environmental impact, crime and anti-social behaviour'	**Not achieved**
Better regulation	**Result**
• Reduce the burden of commercial operation (see page 17) • Implemented Department for Transport (DfT) plan for licensing reform • Delivered DfT plan for Graduated Fixed Penalties & Deposits	**Achieved**
• Deliver modernised support services to Traffic Commissioners (see page 17) • 80% of new Service Level Agreement measures with Traffic Commissioners achieved	**Achieved**
Better value for money	**Result**
• Deliver final year of VOSA's 4-year Value for Money Plan (see page 19) • 4 year cumulative plan delivered: - £13.3m cost saving - 469 gross headcount reduction - 16% increase in effectiveness	**Not achieved***
• Increase the take-up of existing electronic services available to customers (see page 19) • 69% overall take-up achieved for existing e-services	**Achieved**

* We achieved 2 of the 3 key measures. We achieved a 15% increase in effectiveness compared with the key measure of 16%.

Effective service to customers

Secretary of State Target

Maintain or improve customer satisfaction

Key Measure

Improved on the previous year's achievement or maintained satisfaction at or above 90%

We achieved our key target as follows:

Customer Satisfaction Surveys		2006/07	2007/08
Operators			
- overall satisfaction rating		**81%**	**85%**
comprising:	Operator Licensing	91%	90%
	Vehicle Testing	78%	84%
	Enforcement	74%	80%
Drivers, Fitters, Presenters			
- overall satisfaction rating		**92%**	**92%**
comprising:	Roadside Enforcement Checks	90%	92%
	Vehicle Testing	94%	92%
MOT Customers		**94%**	**96%**

In February 2008 a Memorandum of Agreement (MOA[1]) was signed between VOSA and all of the leading Trade Associations. The MOA marks a long-term commitment to work together to promote safe operation of commercial vehicles. The MOA is supported by detailed Service Level Agreements (SLAs) on our testing and enforcement activities.

We have improved our testing services for our customers. Specifically, we have:

- **Improved forward booking times by:**
  - **Inviting customers to book their annual tests at quiet periods of the year.** From October 2007 customers have been able to view the weekly forward booking time information on Transport Office and VOSA websites
  - **Aligning out-of-hours working to meet customer demand** in stations that are fully utilised and by encouraging customers to use available test slots within normal hours where convenient
  - **Reducing the time customers have to wait before a vehicle test** - by using a National Testing Support Team to assist where test stations have regional recruitment shortages
- **Streamlined customer throughflow at the test lane** with initiatives such as removing the need in most stations to report to reception
- **Reviewed the way we carry out the annual test**, making significant changes to the process. There was a noticeable reduction in the average time taken to carry out a test: 90% of all HGV or PSV tests completed in 90 minutes or less improved to 90% completed in 72 minutes or less from November 2007
- **Reduced banking administration** by offering customers the option to pay for their tests by debit and credit card via the on-line test booking service

[1] A Memorandum of Agreement is a document which lists the agreements made between two or more parties in how they will work together. For example on how VOSA and the leading Trade Associations will work together to make our roads safer.

Secretary of State Target

Increase range of electronic services available to customers

Key Measure

Delivered portfolio of information services
- **Operator Compliance Risk Score reports**
- **Test History Maintenance reports**
- **Vehicle Encounter reports**

On-line vehicle test bookings service available to commercial customers

In support of the Government Transformational agenda, we have introduced further electronic services tailored to customer needs, including:

- **The following new services on the Transport Office website:**
  - Operator Compliance Risk Score reports
  - Maintenance reports
  - Encounter reports
- **An on-line vehicle test bookings service.** This service has been available to commercial customers from March 2008 for single test bookings. The initial response from customers on the usability of the system has been very positive and the system will be rolled out to all operators during the coming year

Following the successful roll-out of MOT Computerisation we have made further enhancements to the system. We have:

- **Enabled 'stand-alone' testing to minimise the impact of occasions when the system is temporarily unavailable.** Garages can now automatically continue to test vehicles and issue standard documentation in the event of short-term unavailability of the database
- **Developed an interface,** in response to customer demand, which will allow the introduction of hand-held electronic test recording devices into garages during 2008/09

We worked in partnership with Transport Direct to devise a new **Electronic Bus Service Registration (EBSR) system** which allows bus services to be registered with the Traffic Commissioner electronically. PSV operators benefit from the quicker process which also increases the consistency and accuracy of schedule information. Local authorities, Traveline and other on-line information services can also benefit from the system as it gives faster and more accurate information on bus routes and timetables for bus users.

Stagecoach and Arriva have been involved in the pilot of EBSR, and are working closely with us to ensure the roll out is a success following the launch of the system on 31 January 2008.

Robert Montgomery, Service Performance Director, Stagecoach UK Bus

"We are delighted to be the first bus operator in the UK to deploy this new technology, which will help to unlock the potential to exchange a range of information about our services using modern digital techniques.

Our customers want buses that turn up on time and high quality information about our services. The new electronic data system will ensure we deliver faster and more accurate information to our customers, whether they access it at a bus stop, via the internet or on their mobile phone.

The system will also improve the way we work with transport authorities and other key stakeholders, as well as improving the design and operation of our bus networks."

Improved road safety

HGV INDUSTRY
- Around 98,300 HGV operator licences in issue
- 1.81 billion tonnes of goods lifted in 2006 (1.75 billion in 2005)
- Average fleet size is 3.8 vehicles
- 29.1 billion vehicle kilometres travelled in 2006
- 703,300 annual tests (706,700 in 2006/07)

PSV INDUSTRY
- Around 9,100 PSV operator licences in issue
- Average fleet size is 9.9 vehicles
- Around 22,800 registered bus services
- 5.4 billion vehicle kilometres travelled in 2006
- 81,300 annual tests (81,700 in 2006/07)

Secretary of State Target

Improve the consistency of vehicle testing services across the country

Key Measure

1/3rd reduction in variation of the initial test fail rates from the 2006/07 national average whilst maintaining quality test standards ➔

We set ourselves a challenging target and, while we did not achieve the key measure, we delivered a one-third reduction in variation of the initial test fail rates in 187 out of 195 locations and succeeded in maintaining quality test standards. Test fail rates decreased from 2006/07 for both HGVs and PSVs.

Initial test fail rates	2006/07	2007/08
Motor Vehicles (MVs)	39.5%	36.5%
Trailers	24.6%	22.4%
PSVs	22.8%	21.2%

Reasons for test failures include:	MVs	Trailers	PSVs
Headlamp aim	21%	-	13%
Lamps	7%	5%	4%
Service brake performance	6%	11%	3%
Brake system components	5%	4%	3%
Parking brake performance	-	8%	-

Continuing to focus on test fail rates we have:

- **Driven down causes of inconsistency** by improving our internal processes and ensuring a more consistent approach by our staff. We have also been working with customers to influence factors outside of our control, such as poorly presented trailers and a high average age of fleets in certain areas
- **Targeted visits on high-risk operators** with high test fail rates and high prohibition rates through the use of our operator compliance risk score

To improve vehicle testing services we have also:

	• Submitted a **report and recommendations on variables in headlamp aim testing** to DfT proposing changes to test standards, simplification of the test method and a move towards electronic measurement. This prompted an independent review by DfT of statistical accident data to measure any risk to road safety of implementing our recommendations. The review concluded there would be no noticeable risk to road safety. Full consultation with the industry on the implementation of new standards will take place in 2008/09 • Developed an inspection and **test criteria for 'kneeling' buses**. This included a review of methods for examining devices such as wheelchair lifts, 'kneeling' capability and other bus accessibility features
	• Prepared for **Pre Registration Inspections (PRI)** for passenger-carrying vehicles with more than 8 passenger seats to ensure vehicles comply with "Construction and Use" safety standards. By March 2008 we had designed new testing requirements, started communication with the industry, issued a list of inspection items and operating instructions, and commenced the purchase and trialling of equipment
	• Introduced a **Registration plate test** for private minibuses. As part of the MOT test all vehicles now have a registration plate check
	• Worked with DfT to devise **a scheme to ensure compliance with the new retrofit mirror Directive EC2007/38**[2]. A simple guide will be available to demonstrate how vehicle presenters can ensure their field of view complies. We will carry out mirror checks from 1 April 2009

Secretary of State Target

Improve the quality and consistency of the private vehicle testing service to the public

Key Measure

Delivered a risk-based enforcement system to target the serious and serially non-compliant Vehicle Testing Stations (VTS)

MOT INDUSTRY
- Over 30m private and light goods vehicles registered with DVLA
- Around 19,000 MOT garages
- Around 16,700 Authorised Examiners
- Just under 50,800 Nominated Testers
- Around 28.8m annual tests
- Just under 13,400 trainees

	• We introduced a **risk-based system for the enforcement of the MOT testing scheme**. Site assessment visits were carried out with risk scores and subsequent red, amber or green ratings for 19,000 garages. This will enable us to target our limited resources on the seriously and serially non-compliant MOT testers, and will enable a lighter touch approach to compliant garages

[2]A previous Directive instructed that new HGVs should be equipped with blind spot mirrors where appropriate to improve their indirect field of vision. The new Directive states the same rules should apply to existing HGVs meaning those without sufficient field of vision currently will need to have mirrors fitted to meet the standard.

The following table summarises some key MOT statistics:

	2003/04	2004/05	2005/06	2006/07	2007/08
MOT garages	18,400	18,000	18,300	18,600	18,900
Certificates issued	24.6 m	25.2 m	25.1 m	25.2 m	25.7 m
Test fail rates	29.1%	28.6%	32.3%	32.8%	34.8%

Reasons for test failures include:	
Lighting and signalling	19%
Brakes	18%
Suspension	15%
Tyres	13%
Vehicle body	10%

MOT Computerisation has received a number of awards in the past year including:

- **Winner of the Business-to-Business Project Award** at the British Computer Society IT Industry Awards in December 2007
- **Winner at the e-Government National Awards 2007** in the category 'Central e-Government excellence: Take-up & usage growth' in January 2008. This was in recognition of the high number of garages using electronic ordering and payment mechanisms for test slots and catalogue items
- **'Highly Commended'** in the category of **Best Operational Central Government Project** at the prestigious Public:Private Finance Awards in May 2007 - one of only four 'Highly Commended' awarded from among 21 separate award categories

Saving lives; safer roads

Provisional figures to September 2007 show a reduction in the number of killed and seriously injured of 35% compared with the DfT target of 40% by 2010 against the 1994-98 baseline average

Secretary of State Target

Contribute to improved road safety through better targeting on non-compliant vehicles and drivers

Key Measure

- **65% improvement in targeting of enforcement action at the roadside compared with 2004/05**
- **35% increase in the number of *dangerous* vehicles and drivers taken off the road compared with 2004/05**

We achieved a 70% improvement in targeting of enforcement and a 39% increase in the number of *dangerous* vehicles and drivers taken off the road compared with 2004/05.

The improvement in targeting has been delivered through a variety of initiatives. We have:

- **Invested in new technology** at the roadside. Using a combination of automatic number plate recognition (ANPR) equipment, weigh in motion sensors (WIMS) and intelligence databases we have generated a significant increase in prohibition rates at road-check sites. Since the introduction of the technology at a major site in the South East the prohibition rate for overloading has increased from 34% to 63%
- Further developed our **Operator Risk Scoring system**. Early indications show a significant increase in the prohibition rates of targeted red-rated operators with a 45% prohibition rate on roadworthiness compared with 33% for all encounters, and 28% on drivers' hours compared with 12% for all encounters

- Built on the successes of our **Regional Intelligence Units**. During the year we have seen a 33% increase in the number of compliance cases referred to Traffic Commissioners compared with 2006/07. This resulted in an 18% increase in the number of disciplinary Public Inquiries conducted by Traffic Commissioners
- **Continued our work with the Highways Agency to combat sideswiping**. A further 90,000 Fresnel lenses were issued around the UK - the original report on the initiative showed a 59% reduction in sideswipe incidents

The Fresnel lens initiative received a Prince Michael International Road Safety Award in November 2007 recognising the achievement and innovation to improve road safety across the world.

In recognition of its good work the ANPR and WIMS project team **won an award at the Transport Times National Transport Awards** in the category of Road Safety, Traffic Management and Enforcement. The award is for the work that VOSA and Highways Agency have done with the Central Motorway Police Group, Civica Systems and Applied Traffic to investigate the effectiveness of linking ANPR camera technology with WIMS. The technology that links these - Vehicle Identification Pre-Selection Enforcement Resource (VIPER) - has enabled VOSA to identify and remove overweight goods vehicles from the motorway system.

We carried out the following collisions investigations:

	2005/06	2006/07	2007/08
HGVs	1,075	993	927
PSVs	504	446	406
Cars/Motorcycles	933	875	533
All	**2,512**	**2,314**	**1,866**

The majority of our investigations are prompted by a police request with the priority on collisions involving HGVs and PSVs. Our Vehicle Safety Branch has also successfully obtained **ISO 9001:2000 accreditation**, which reflects the delivery of consistently high quality standards in all of their processes.

In the past year we have also:

- Completed a **VOSA-led, EU-funded, Twinning project in Romania**, which provided Romanian counterparts with assistance in improving road safety, in particular through education, enforcement and testing work
- Supervised the UK Vehicle Safety Recall Scheme[3]. In February 2008, we published a revised best practice Guide to Recalls in the UK Automotive Sector aimed at smaller manufacturers unfamiliar to the process of safety recalls

Safety recall trends are as follows:

2005/06	2006/07	2007/08
269	313	270

While the actual number of recalls has reduced compared with 2006/07, a total of 1.6m vehicles were recalled compared with around 1.1 million in the previous year, with a response rate of just over 90%. Cars, motorcycles and HGVs combined account for around 90% of the 270 recalls.

[3] The UK Vehicle Safety Recall scheme aims to make sure that as many vehicles as possible which have been identified as potentially having a safety issue at manufacture are recalled. It ensures that every effort is made to trace the owners of affected models.

Improved journey time reliability

Secretary of State Target

Contribute to more reliable journeys on the strategic road network, improved road safety, minimised congestion

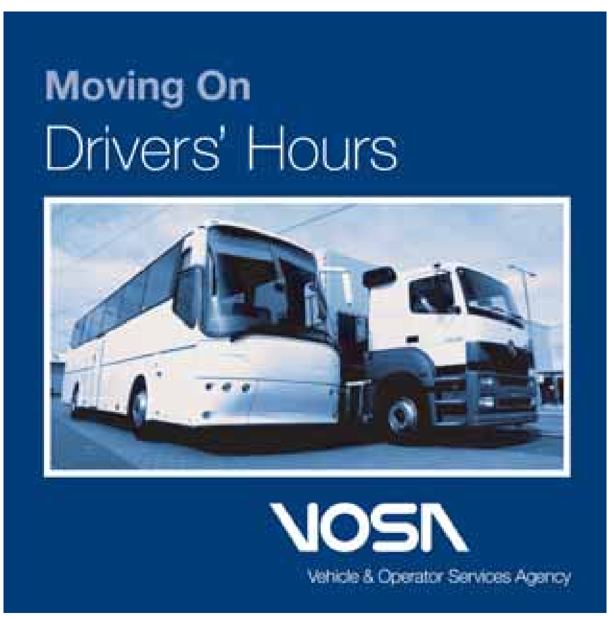
Key Measure

20% increase in volumes of checks nationally on 'at risk' goods vehicles on international journeys compared with 2006/07

We failed to achieve this challenging key measure mainly because of the withdrawal and encrypting of laptops from operational staff in response to heightened information security measures from Government. The other major factor was extensive in-year deployment of staff to complete MOT risk-scoring across all garages. Overall we increased the volume of checks by almost 3%. We have achieved a 96% increase in the number of checks on foreign vehicles compared to 2005/06 and the number of prohibitions issued to foreign vehicles was up 130%.

As part of our work to target goods vehicles on international journeys we have:

- Increased **hours of operation** (24/7) in higher priority areas deploying International Transport Inspection Teams
- Continued to increase **education** through DVDs and leaflets. We distributed DVDs with information on drivers' hours with Moving On and Truck and Driver magazines. The DVD was produced in 5 languages and was also handed out at road-check sites
- Deployed **a further 10 examiners** to the targeted enforcement of international journeys as a result of the reallocation of funding from other enforcement work
- Installed further fixed WIMS/ANPR sites at strategic locations across the country and more are in the process of being installed. We have developed front-end software to identify ANPR targets more effectively



Better regulation

Secretary of State Target

Reduce the burden of commercial operation

Key Measure

- **Implemented Department for Transport (DfT) plan for licensing reform**
- **Delivered DfT plan for Graduated Fixed Penalties & Deposits**

HGV INDUSTRY	PSV INDUSTRY
• Around 98,300 HGV operator licences in issue • 381,100 vehicles on licence • 7,250 new licence applications	• Around 9,100 PSV operator licences in issue • 1,075 new licence applications • 1,450 bus permits issued • 22,850 live bus registrations

In preparation for the proposed **licensing reform programme**:

- Large national operators based in more than one traffic area now have a **single point of contact** through a single Traffic Commissioner
- Changes to the structure of **licensing and testing fees** were judged by DfT to require primary legislation. We are subsequently now working towards a revised implementation date of April 2009
- We contributed towards research led by DfT on the **abolition of windscreen discs and margin concessions** to ensure the technology can maintain existing levels of enforcement

In readiness for the introduction of **Graduated Fixed Penalties and Deposits** we have:

- Made extensive preparations to introduce graduated penalties at the roadside once secondary legislation is in place. This is now expected in March 2009

Secretary of State Target

Deliver modernised support services to Traffic Commissioners

Key Measure

80% of new Service Level Agreement measures with Traffic Commissioners achieved

87.5% of our new Service Level Agreement (SLA) with Traffic Commissioners has been achieved against a target of 80%. The Commissioners have recently expressed satisfaction with the quality of work of our new Central Licensing Unit in Leeds.

There was a significant improvement through the year in the turn-round of unopposed operator licence applications. Performance exceeded the target to complete 85% within 9 weeks, achieving an average of 90.4% over the last 6 months of the year.

Reduced environmental impact, crime and anti-social behaviour

Protecting the environment. To improve environmental standards we have:

- Published the revised Guide to Maintaining Roadworthiness in April 2007 as part of our work to ensure operators are aware of ways to **reduce the environmental impact** of their operations. Copies were distributed with Moving On magazine and an electronic version was placed on the "Transport Office" website in May 2007. The Guide now includes a section on sustainability including information on **Safe and Fuel Efficient Driving** (SAFED). As part of our operator visits we now advise on sustainability
- Worked with the **London Hydrogen Partnership** to test the use of fuel cell generators in London. These local authority-owned generators produce zero emissions and have been in use at our roadside checks

- The **London Low Emission Zone (LEZ)** commenced on 4 February 2008 with HGVs over 12 tonnes the first vehicles to conform to the standard (Euro III for particulate matter). To date we have delivered approximately 13,000 Low Emissions Certificate and Reduced Pollution Certificate LEZ-related tests

- We published our first **Sustainable Development Action Plan** outlining key activities to integrate sustainable development into the heart of all of our processes. We are currently implementing a nationwide staff awareness campaign to raise the profile and understanding of sustainable development with plans to provide training for Senior Management and all new entrants
- We have been involved in a wide array of initiatives, ranging from involvement in the DfT-wide Carbon Trust Carbon Management Programme to procuring energy-saving kettles. Our Procurement Unit now incorporates sustainability criteria when tendering for contracts

Cutting crime

Our **Vehicle Identity Check (VIC) scheme** has now been in place for four years, with the following number of checks carried out:

2004/05	2005/06	2006/07	2007/08
44,850	84,250	94,725	99,975

- We introduced a refresher course for all VIC inspectors to ensure an understanding of changes to procedures and to ensure their consistent application. We also commenced work on an SLA for the scheme

Better value for money

Secretary of State Target

Deliver final year of VOSA's 4-year Value for Money Plan

Key Measure

4 year cumulative plan delivered:
- **£13.3m cost saving**
- **469 gross headcount reduction***
- **16% increase in effectiveness**

	2004/05 Outturn	2005/06 Outturn	2006/07 Outturn	2007/08 Outturn	4 Year Summary
Workforce					
Opening baseline 1 April	2,823	2,771	2,708	2,626	**2,823**
Positions saved	-89	-99	-181	-22	**-391**
Positions created to deliver new initiatives	37	36	89	23	**185**
Reinvestments			10	8	**18**
Closing baseline 31 March	2,771	2,708	2,626	2,635	**2,635**
Efficiency and effectiveness savings					
Increase over previous year	£3.5m	£4.4m	£4.8m	£0.7m	**£13.4m**
Total saved in-year	£3.5m	£7.9m	£12.7m	£13.4m	

* of the total staff savings, it was agreed that 109 could be redirected into front-line enforcement activity.

We achieved both our cost saving and headcount measures for the 4-year Plan and only narrowly missed our 16% effectiveness measure, achieving a 15% increase, due to the impact of new data security restrictions.

Secretary of State Target

Increase the take-up of existing electronic services available to customers

Key Measure

69% overall take-up achieved for existing e-services

The target of 69% overall take-up achieved for existing electronic services was exceeded by 2% with a 71.5% take-up.

	Total transactions	% on-line
'O' Licence Vehicle Transactions (Phase 1)	296,879	64.2%
Extended Self Service (Phase 2)	67,140	34.4%
MOT Test Payments	192,741	95.7%
Total Transactions	**556,760**	**71.5%**

Efficient Management of Estates

As part of our modernisation programme Chelmsford, Shrewsbury and Bristol test station sites were completed in-year. Throughout the programme the sustainability of the buildings has been increased whilst driving down costs. The new office building at Bristol is 63% more energy-efficient than a typical office building and a 50% reduction in whole-life costing is being achieved at modernised sites. In the next year we aim to acquire more efficient offices for our staff in Swansea and support new enforcement initiatives through selective site acquisition and remodelling of existing sites to improve operational efficiency.

Training and Development

The following training has taken place during the year:

For our Operational staff:

- MOT Enforcement Transformation
- Mobile Compliance
- Digital Tachographs
- Drivers' Hours Rules Changes
- London Low Emission Zone

We have delayed training of Graduated Fixed Penalty and Deposits in line with the delay in secondary legislation (refer page 17).

For our Directors and Managers:

- **A new Senior Management Development Programme including:**
  The Challenge of Change
  Getting Things Done
  The Fundamentals of Project Management

This programme's remaining modules will be completed in 2008/09.

- **A new Middle Management Development Programme**, which commenced this year with The Challenge of Change.

Again, we will continue to deliver the programme in 2008/09.

- **A Director Development Programme including:**
  The Challenge of Change
  Working as a Team
  The Business Case for Diversity
  Legal Awareness

Investing in our People

In December 2007 we returned to **full IiP accreditation**. The bulk of the evidence collected during the review was overwhelmingly positive and staff commented on improved levels of communication, more focused and effective development, and improvements to the way in which they were being managed.

Specific activities have been undertaken to deliver sustainable improvements. We have:

- Introduced the **Management Development Portfolio**, a programme that allows managers to manage effectively their staff's development from identifying needs through to evaluating outcomes
- **Recruited three Training Managers** linked to VOSA regions to provide help, advice and guidance and further assist in managing peoples' development
- Focused on the completion of **Annual Staff Reports and Personal Development Plans** on time reinforcing a continuous improvement approach

Valuing our people

The first ever VOSA Values awards were introduced this year - an opportunity to say thank you to our staff who have gone the extra mile, who help others in their work and who have been good role models. Staff nominate their colleagues for the following categories:

- Supporting others
- Being a VOSA role model
- Going the extra mile
- Organisational effectiveness
- Positively embracing change

Industrial Relations

We have continued to work with our Trade Unions to engage them fully as a key stakeholder. During the year we have jointly developed and implemented a **Framework Agreement** which clearly defines all channels of communication in place for Trade Union engagement.

Valuing Diversity

We have carried out over 90 impact assessments as part of our **Diversity Delivery Plan** to promote diversity in our workplace.

The Cabinet Office Diverse Civil Service 10-point plan has now come to an end. Early results suggest we exceeded our disability targets in the relevant grades but did not meet the targets on ethnicity or women. In future we will try to attract people from different backgrounds by tailoring advertising campaigns to publicise VOSA to a wider audience in areas where we consider we do not reflect the demographics of the region.

We have also made preparations to introduce an **Ethnicity Monitoring system on our Mobile Compliance technology** to meet regulatory requirements.

In accordance with the Welsh Language Act 1993 and our **Welsh Language Scheme**, we are committed to treating the English and Welsh languages equally when providing services to the public in Wales. During the year we:

- Translated the 'Reason for Rejection' descriptions for the **MOT Computerisation** system into Welsh
- Translated over 20 different types of Welsh notification letters and Welsh offence table codes for **Graduated Fixed Penalties**
- Produced Welsh documentation pertaining to **Public Inquiries**
- Produced bilingual **job adverts**

Working Environment

Our Health and Safety Team delivered a number of initiatives during 2007/08 to continue to improve VOSA's working environment. We have:

- **Assessed exposure to noise and diesel engine exhaust emission levels** at enforcement check sites. Surveys were carried out at seven sites and the results indicate that measurements are within relevant occupational exposure limits. This work will continue into 2008/09

- **Reinforced fire safety training in all our premises**
- **Worked with the Traffic Commissioners to improve safety and security at all Public Inquiries**
- Reviewed the model risk assessments for our vehicle testing activities and for operations involving ANPR vehicles
- Commenced a further review of VOSA's driving policy and guidance in light of new information on driving at work published by the DfT
- Reviewed and reissued our policy and guidance notes for Accident and Incident Reporting

In-year we saw a **34% decrease in the overall number of accidents / incidents reported** by our managers. The total number of injury accidents has also reduced by 20% on the previous year. Injuries to customers and other visitors to our sites fell by 53%.

Attendance Management

Sickness absence increased slightly from 9.6 days in 2006/07 to 10.2 days in 2007/08 - this increase was particularly affected by cases of long-term absence.

During the year we:

- Ran a number of refresher training courses for managers
- Reviewed our existing counselling and support facilities and retendered for a new provider
- Maintained frequent contact with employees who are absent
- Increased the amount of absence-related statistics to show trends and initiate action
- Published a new guide on managing sickness absence

Information Management

As part of an **information management programme**, this year we:

- Created a Customer Information Services team to act as a single point of contact for all Information Management Services
- Commenced the redesign of our Data Warehouse to provide a single view of our customer data
- Delivered analytics solutions for testing, enforcement and operator compliance
- Reviewed all data sharing arrangements to ensure statutory and policy compliance

Information Security

Following the publicised data losses across Government, we have been required to implement a number of measures to improve the protection of data we handle. The consequences have been felt across every aspect of our business. We successfully completed laptop encryption by mid March, enabling a return to mobile working.

A review of our procedures identified no significant concerns with regard to data security, although some new processes have been implemented. We now ensure all non-electronic transmission of bulk data is issued via secure point to point courier.

As well as diverting a significant amount of staff resource to the implementation of the above measures, we have incurred additional financial costs in the region of £650,000.

Directors' Report

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 ensure 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 provides 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 Safety, Service Delivery and Logistics (SSDL) Group within the Department for Transport (DfT) and was formed on 1 April 2003 by the merger of the Vehicle Inspectorate Trading Fund (VI) and the Traffic Area Network (TAN), a division of DfT.

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 DfT 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 7 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 in the year, as set by the Secretary of State, of delivering against an agreed VOSA 'Value for Money' plan, achieving efficiency and effectiveness savings of 5%.

VOSA Governance

The VOSA Directing Board is responsible for providing leadership and direction for the Agency by setting the vision and strategic direction of the Agency, whilst ensuring that the interests of stakeholders are considered.

The following officers constituted VOSA's Directing Board throughout most of the year:

Mr Stephen Tetlow MBE - Chief Executive
Mr Jeffrey Belt - Corporate Services Director
Mr Tony Downes - Business Strategy and Corporate Development Director
Mr Alastair Peoples - Testing and Inspections Director
Mr Alex Fiddes - Private Vehicle Director
Mr David Trussler - Commercial Customer Services Director
Mr Kevin Rooney - Passenger Vehicle Director
Mr Hugh Edwards - Heavy Goods Vehicle Director
Mrs Janice James - Intelligence & Targeting Director

Mrs Janice James left VOSA on 31 March 2008. Her role has been subsumed within a new smaller Board structure which came into effect on 1 April 2008 into a new Chief Operating Officer role, to which Mr Alex Fiddes has been appointed. Since the year end, Mr Jeffrey Belt has stepped down from his role as Corporate Services Director and Mr Stephen Avery has been appointed as interim Finance Director from 21 April 2008. A new Customer Directorate under Mr Kevin Rooney has also been formed combining part of the roles previously undertaken by Mr Fiddes, and Mr Hugh Edwards. Mr Edwards has taken up the role of Chief

Engineer and stepped down from the Board on 31 March 2008. Mr Tony Downes has taken on the role of People and Change Director, and Mr Alastair Peoples has taken on the role of Strategy and Performance Director. Mr David Trussler will be leaving VOSA in August. Mr Andy White will take over the role as Services Director in addition to his current role and will become a full member of the Directing Board.

Non-Executive Directors

Mr Alex Jablonowski
Mr John Doran
Mr Paul Smith

Mr Stephen Hickey, Director General SSDL Group and Ms Vivien Bodnar, Director of Strategy and Resources, SSDL Group, also attend.

The VOSA Management Board is responsible for the day to day management of the Agency. The officers constituting VOSA Management Board are the executive directors noted above, with the addition of:

Mr Martin Jones - Director of Human Resources
Mr Andy White - Director of Information Technology

Mr Martin Jones left VOSA on 30 April 2008. His role has been taken over by Mr Downes.

The VOSA Directing Board has established three committees to support it in its responsibilities - the Audit and Risk Committee, the Health and Safety Committee and the Remuneration Committee. The VOSA Audit and Risk Committee responsibilities and membership are set out within the Statement on Internal Control on page 42 of this report. The Health and Safety Committee membership is set out within the Training and Health and Safety section on page 27 of this report.

Mr Jablonowski acts as Chair of the VOSA Remuneration Committee providing advice on the annual pay remit, bonus schemes and Director remuneration.

VOSA reports to the Department for Transport SSDL Management Team on its performance during the year, and its proposals for its annual Business Plan. The SSDL Management Team is responsible for advising the SSDL Director General, as Additional Accounting Officer.

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 2007/08 VOSA employed, on average, 2,436 (full-time equivalent) people throughout the United Kingdom. VOSA is an equal opportunity employer. Consequently, all staff, irrespective of their status, origin, sexual orientation, religion or beliefs, are 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 by 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 level and National Whitley Committees.

Training and Health and Safety

A priority is to invest in vocational 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. However, VOSA did not meet all of the elements of the IiP National Standard during the 2005 review and, as a result, was placed in a "Retaining Recognition" status. Following remedial work at all levels within the organisation VOSA has achieved full accreditation status as an Investor in People.

A full programme of training courses are run at VOSA's two principal training centres - Bristol Training Centre and the Chadderton Training Centre - and at other 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.

In accordance with the Health and Safety Executive Guidance issued in December 2007 the VOSA Directing Board has established a Health and Safety Committee as a sub committee to the Board. The Health and Safety Committee champions Health and Safety and facilitates effective development and management of the Health and Safety function. The directing members of the Health and Safety Committee are set out below:

Mr Stephen Tetlow MBE - Chief Executive - Chair
Mr Alex Fiddes - Chief Operating Officer
Mr Tony Downes - People and Change Director
Mr John Doran - Non executive Director

The Health and Safety Committee is supported by a professional Health and Safety team and the National Whitley Committees.

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 99.74% 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 Comptroller and Auditor General and his Certificate and Report to the Houses of Parliament is presented in the Annual Accounts at page 47. 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 £52,500 (2006/07 £51,500). There were no non-audit fees charged in either 2007/08 or 2006/07.

Disclosure of audit information to VOSA's auditors

As far as the Accounting Officer is aware:

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

Accounts direction

The accounts on pages 50 to 71 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 Dear Accounting Officer letter [DAO (GEN) 06/07].

Management Commentary 2007/08

The Management Commentary has been prepared in compliance with Reporting Statement 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.

This commentary focuses on the financial performance of VOSA for the year 2007/08. Commentary on performance against VOSA Key Targets and other Key Performance Indicators can be found on pages 10 to 23 of the Annual Report.

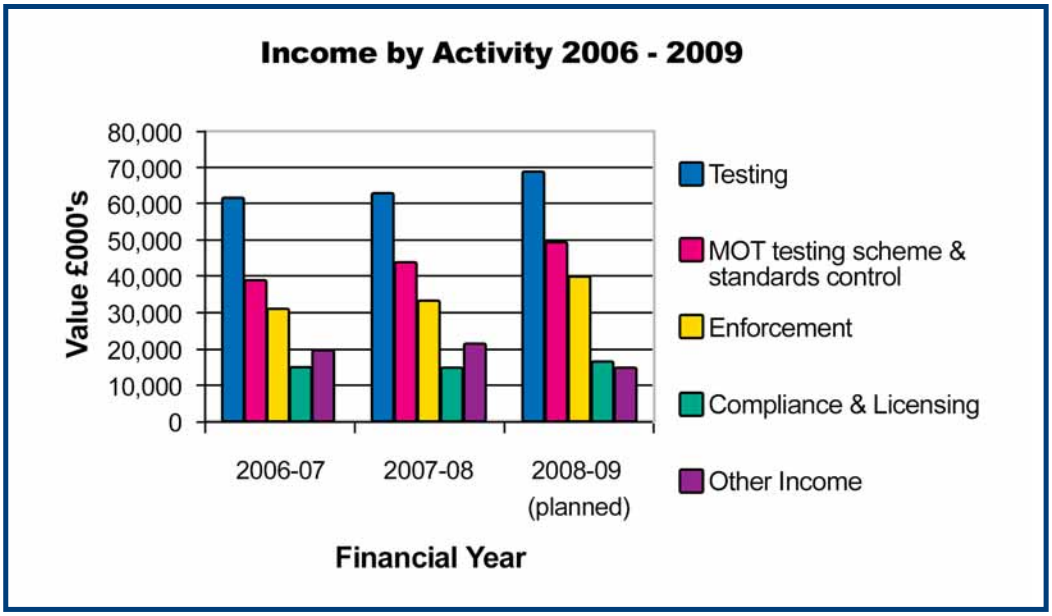
Financial performance

The Income and Expenditure Account for the year 2007/08 is set out on page 50 of the Annual Report. The statutory activity and enforcement work is funded through fees and charges with additional funding for enforcement activities provided from the Single Enforcement Budget administered by the SSDL Group (monitored through 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.

VOSA is set a financial objective (set out on page 25 within the Directors' report) and fees and charges are set to facilitate achievement of the financial objective. As part of the Operator Licence Reform work we are planning to rationalise and simplify the fees currently charged in April 2009.

Actual outturn for the year produced a deficit of £14.0m on ordinary activities. The major contributing factors behind this performance are the continued reduction in the surplus on the MOT scheme (see Note 2 to the accounts) and also a reduction in volumes of heavy goods vehicles being tested. The deficit after interest was £16.6m. VOSA has a cumulative deficit carried forward of £14.0m. As VOSA has incurred a deficit in both 2007/08 and 2006/07, in line with its Business Plans, VOSA has not complied with Section 4(i) of the Government Trading Funds Act 1973, which requires that a Trading Fund “manage 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 revenue”. In addition, VOSA was set a target by the Secretary of State for Transport in 2003 to achieve over the five years to 31 March 2008 an average return on capital of 3.5% p.a. It was not possible to achieve this target while delivering these deficits. The actual return achieved over this five year period was an average of (2.2)% p.a.

Income

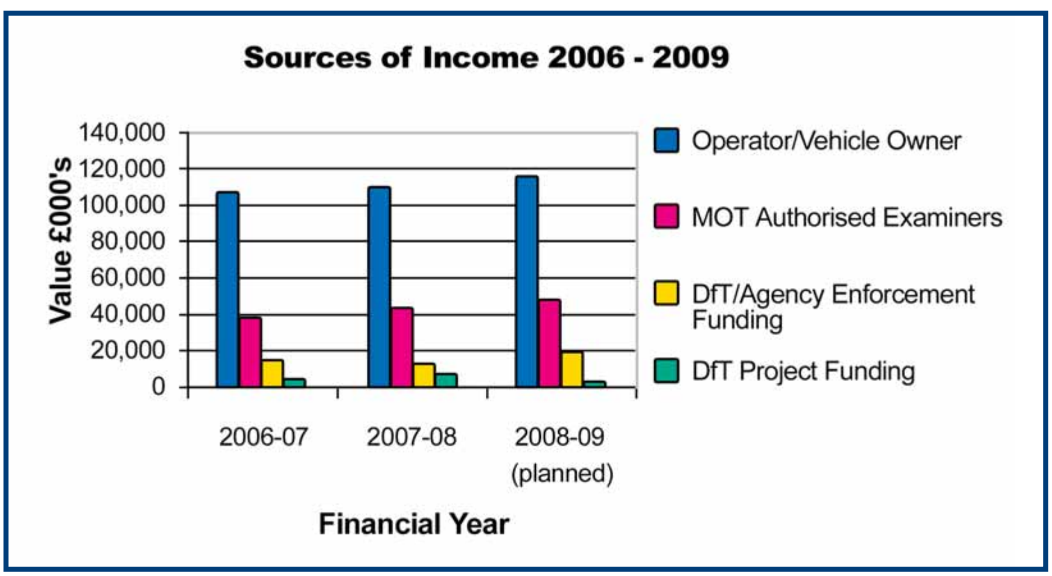


The income for the year was £176.4m (2006/07 £165.5m), an increase of £10.9m (6.6%) on the previous year. Income from activities increased by £8.7m - of this increase, £7.8m was as a result of fee increases and £0.9m as a result of increased volumes of MOT slots sold. Other operating income increased by £2.2m mainly due to an increase in funding received from DfT.

Sources of income

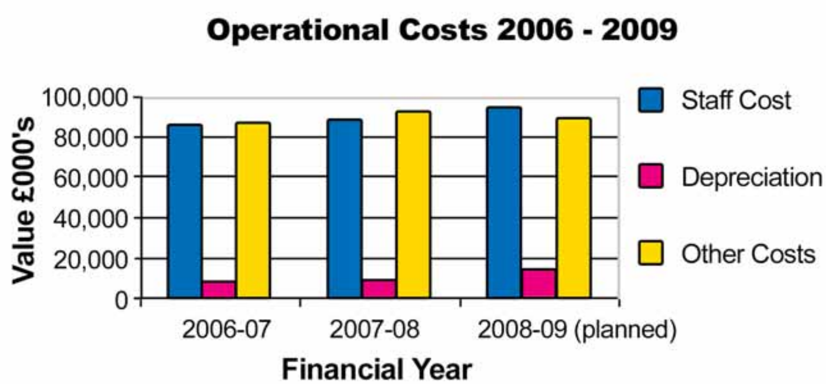
VOSA's income is obtained from three main sources:

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



Operational costs

Total operational costs increased by £8.7m (4.7%) to £193.6m (2006/07 £184.9m). Staff costs have increased by 3.2% to £89.1m, slightly below our forecasts. Included within this movement is an increase of £1.1m in permanent staff costs (e.g. salary, overtime, etc.) and an increase of £1.9m in the cost of employing agency/contractors with specialist skills and/or knowledge that are covering full time civil service posts. Other operating charges increased in the year by £5.5m (6.4%) to £92.0m. Increases have been seen across the majority of costs from last year (see note 3 to the accounts), with particular increases in expenditure on building and equipment maintenance (£0.6m and £0.6m respectively) and in costs of recruitment (£1.4m).



This is the final year of the 4 year delivery of Value for Money plan through which we were to deliver a net 360 post savings and an efficiency saving of £13.3m. As stated in the Better value for money section on page 19 of the report our actual outturn was a reduction in employee numbers (measured in FTE at end March) of a net 373 posts. This has resulted from the work we have undertaken looking at where and how we deliver services (e.g. testing transformation project) and from organisation changes (e.g. the centralisation of the operator licensing operation into our Leeds office). These savings, together with other initiatives we have undertaken to deliver savings (e.g. the review of major contracts to ensure the delivery of better value for money) have enabled us to deliver £13.4m of efficiency savings.

Asset management

During the year we have spent a further £25.7m on investment in the modernisation and refurbishment of the testing station estate across the UK, the equipment used at these locations 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.

The level of debtors has decreased by £5.0m in the year primarily due to a decrease in the level of other debtors, prepayments and accrued income categories.

The level of creditors has increased by £0.9m in the year, primarily resulting from a decrease in the level of other creditors, an increase in the level of accruals and deferred income whilst the level of other creditors reduced significantly. There has also been an increase in the level of loans repayable within one year.

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

Net funds

Net funds stand at £(17.4)m, a net decrease of £26.3m in-year. This is due to the increased loans granted in-year of £23.0m for the ongoing investment in the estates and equipment refurbishment projects. There was a reduction in the value of cash balances during the year of £8.5m, primarily due to the planned return of surpluses in the MOT Scheme.

VOSA manages liquidity risk within the framework of operating as a trading fund within DfT. The cash balance is held in short term interest bearing accounts and a significant part of it is held in the account with the Government Banking Service.

Return on Capital (ROC)

The average ROC over the period 1 April 2003 to 31 March 2008 was (2.2)% - against the target average figure of 3.5% achievable over the period 1 April 2003 to 31 March 2008. This outturn has arisen due to the requirement for VOSA to return surpluses generated on the MOT scheme in the previous five year period (1 April 1998 to 31 March 2003) back to the trade by running the scheme in a series of deficits. During the previous 5 year period when the MOT surpluses were being built up, the ROC outturn was an average of 8.0%.

The average actual ROC produced is below the target level so we have not been operating at a level which has generated funds to pay a return to DfT. However we have met our obligations and actually made a return to DfT through repayment of loans and interest due on the loans in excess of the target ROC levels (as set out in Note 5b to the accounts on page 60 of this report). The average return over the five year period 1 April 2003 to 31 March 2008 was 6.5% and the average return over the 10 year period 1 April 1998 to 31 March 2008 was 6.4%.

Forward plans

VOSA's mission is:

Save more lives, safer roads
Cut crime
Protect the environment
Value our people
Deliver value for money

Our plans continue to contribute towards delivering DfT strategic objectives which are:

- To sustain economic growth and improved productivity through reliable and efficient transport networks
- To strengthen the safety and security of the UK transport system
- To enhance access to jobs, services and social networks, including for the most disadvantaged
- To improve the environmental performance of transport and
- The Department strives to carry out its work effectively and efficiently, achieving value for money from its expenditure, as well as to be a good employer and to innovate in public service, management and delivery.

Within DfT, the Safety, Service Delivery and Logistics (SSDL) Group, of which VOSA is an Agency, has six strategic outcomes which will help deliver DfT and wider Government objectives. VOSA contributes towards these outcomes, as follows:

- Transforming customer service
- Improving road safety
- Better transport networks
- Reduced impact on climate change and the environment
- Contributing to wider government objectives
- Improved efficiency and capability

In turn we have agreed Secretary of State targets with the Minister that will contribute towards shorter and longer term Government priorities that are reflected in the above objectives and outcomes:

- Reduce the administrative burden of commercial operation
- Improve road safety through better targeting on non-compliant operators, vehicles and drivers
- Improve the quality and consistency of vehicle testing
- Maintain or improve customer satisfaction
- Improve the quality and availability of commercial vehicle tests
- Increase the range of electronic services available to businesses and citizens
- Deliver first year of 3-year Comprehensive Spending Review plan
- Increase the take-up of existing electronic services available to customers

These targets are supported by 9 measures - details can be found in the VOSA 2008/09 Business Plan.

Priorities for achieving these targets in 2008/09 include:

- Improving the availability and consistency of vehicle testing
- Increasing road safety and journey reliability by improving the efficiency and effectiveness of our targeting of high risk operators and MOT garages
- Contributing towards the cross-Government Service Transformation Agreement through introducing further new e-services such as booking HGV and PSV tests on-line
- Increasing work on the detection of high-risk traffic on international journeys
- Making further on-line information available through the Transport Office Portal and working towards the migration to Business Link
- Investing further in our core testing and enforcement estate

Remuneration Report

Remuneration Policy

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

VOSA has developed arrangements for the remuneration of its staff which are appropriate to business needs, are consistent with Government policies on the Civil Service and public sector pay and observe public spending controls. The reward system has been developed in conjunction with the arrangements for organisational change and reflects the following key principles:

(i) Value for money from the pay bill

(ii) Financial control of the pay bill

(iii) Flexibility in pay systems

(iv) A close and effective link between pay and performance and

(v) Compliance with employment legislation

In addition, VOSA seeks to follow overarching pay principles, adopted in DfT and its Executive Agencies, so as to avoid equal pay tensions and differences in terms across the DfT family.

Senior Civil Servants

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.

Mr Tetlow was appointed on a three year contract on 6 December 2004. This appointment was renewed on 6 December 2007 and has been extended until 5 December 2010. All other officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 65. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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 of the Remuneration Report, 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	2007/2008 Salary	2006/2007 Salary
	£'000	**£'000**
Mr Stephen Tetlow Chief Executive	120-125	125-130
Mr Jeffrey Belt Director	75-80	75-80
Mr Hugh Edwards Director	65-70	60-65
Mr Martin Jones Director	65-70	60-65
Mr Alastair Peoples Director	90-95	*80-85
Mrs Janice James Director	65-70	60-65
Mr Alex Fiddes Director	70-75	60-65
Mr David Trussler Director	75-80	70-75
Mr Tony Downes Director	65-70	55-60 (full year 60-65)
Mr Kevin Rooney Director	65-70	30-35 (full year 60-65)

*Mr People's salary for 2006/07 has been restated to include travel allowances which are subject to UK taxation.

The SSDL Group pay the non-executive Directors for their attendance at, and preparation for, the Directing Board and Audit and Risk 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. Directors' bonus opportunity is in line with Cabinet Office guidance for 2007/08 - the top 25% of performers able to obtain a bonus of at least 10% of salary. The next 45% of performers able to obtain between 5-10%. This report is based on payments payable by the Agency and thus recorded in these accounts.

Pension Benefits

Directors	Accrued pension at age 60 as at 31/3/08 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/08	CETV at 31/3/07	Real increase in CETV	Employee contributions and transfers in
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Mr Stephen Tetlow Chief Executive	5-10 plus 0 lump sum	0-2.5 plus 0 lump sum	103	66	24	37
Mr Jeffrey Belt Director	20-25 plus 60-65 lump sum	0-2.5 plus 0-2.5 lump sum	540	489	19	11
Mr Hugh Edwards Director	25-30 plus 85-90 lump sum	0-2.5 plus 2.5-5 lump sum	755	*649	24	10
Mr Martin Jones Director	25-30 plus 75-80 lump sum	0-2.5 plus 5-7.5 lump sum	458	364	34	10
Mr Alastair Peoples Director	25-30 plus 80-85 lump sum	0-2.5 plus 2.5-5 lump sum	538	453	18	10
Mrs Janice James Director	20-25 plus 65-70 lump sum	0-2.5 plus 2.5-5 lump sum	520	430	31	10
Mr Alex Fiddes Director	15-20 plus 45-50 lump sum	0-2.5 plus 5-7.5 lump sum	250	185	29	44
Mr David Trussler Director	5-10 plus 15-20 lump sum	0-2.5 plus 2.5-5 lump sum	96	66	11	77
Mr Tony Downes Director	0-5 plus 0 lump sum	0-2.5 plus 0 lump sum	30	12	14	24
Mr Kevin Rooney Director	15-20 plus 45-50 lump sum	0-2.5 plus 2.5-5 lump sum	243	*188	20	10

*Due to certain factors being incorrect in last year's CETV calculator there is a slight difference between the CETV value as at 31 March 07 and that quoted in the previous annual report for 2006/07.

Mrs Janice James left under Compulsory Early Retirement terms on 31 March 2008. She received immediate payment of her pension and associated lump sum plus a compensation payment of £30-35k.

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).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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 Civil Service 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 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

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
7th July 2008

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 for each financial year a statement of accounts in the form and on the basis set out in the accounts direction as set out in Dear Accounting Officer letter [DAO (GEN) 06/07]. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of VOSA and 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 a going concern basis

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

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 Managing Public Money.

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.

The policy framework in which the Agency operates is set out in the Safety, Service Delivery and Logistics (SSDL) Governance handbook. This handbook has consolidated and replaced the individual Framework documents for each agency within SSDL. The Director General obtains the agreement of the Secretary of State to this SSDL Governance Handbook.

I seek the agreement of the Secretary of State to the strategic objectives and annual performance targets for the Agency by seeking her approval to the corporate and business plans, including annual key targets and fee levels. I submit periodic performance reports to the SSDL Management team 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 Accounting Officer. Augmenting the VOSA Directing and Management Boards' assistance to me is the advice and guidance I get from the SSDL Management team, Agencies and DfT partners on arising issues and risks as well as offering routes to escalate risk.

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

Members - Non-executive Directors

Alex Jablonowski

John Doran

Paul Smith - Mr Smith became Chair of the Audit and Risk Committee replacing Mr Jablonowski in July 07

Attendees

Jeffrey Belt - Corporate Services Director (Finance)

Tony Downes - Business Strategy & Corporate Development Director (Risk & Governance)

Paul Sizer - Head of Internal Audit

Peter Seyderhelm - DfT Group Head of Internal Audit

Nigel Gale - National Audit Office external audit Director

I also attend these meetings in my capacity as Chief Executive and Accounting Officer of VOSA.

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 in place throughout the year and which continues in the Agency, accords with HM Treasury guidance.

I and my Agency realise that assets include information which, whilst having a limited financial value on the balance sheet, needs to be handled lawfully, accurately and securely. During the year and following the publicised data losses across Government we have had to urgently implement a number of measures to improve the protection of the data we handle. Laptop encryption was successfully implemented by mid March enabling a prompt return to mobile working. As Accounting Officer I have ensured that the Agency has complied with its statutory obligations and addressed the central guidance issued in-year. I have received comprehensive and reliable assurance from managers, internal audit and my Chief Information Officer that the information risks are being managed effectively, inclusive of a programme of actions to meet new standards to be introduced. I can also confirm that no breaches of information security have been notified to the Information Commissioner within the year. Since the balance sheet date there have been two incidents. The first arose as a result of an administrative error issuing letters to MOT garages and was notified to the Information Commissioner. The second incident is under review with the Department.

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 Programme Management Office. The Agency fully recognises the principles for public risk management.

VOSA's Directing Board has set the Agency Risk Appetite, and made the following Statement on Risk Appetite:

"The VOSA Directing Board endorses the VOSA Risk Management Policy and has a **cautious** attitude to risk, as defined by HM Treasury, with regard to corporate risk. That is to say that our preference is for safe options that have a low degree of inherent risk.

Directors are aware that, due to the nature of their duties, certain staff operate in a high risk environment. In these circumstances the Directors will seek to implement policy and procedures that reduce those operational risks as far as possible.

In addition, the VOSA Directing Board has an **averse** attitude to risk in all matters relating to Financial propriety and to the Health and Safety of its staff.

The Directors will endeavour to manage risk in a manner appropriate to the business of the Agency."

Projects or initiatives are assessed individually via the Programme Management Office guidelines (e.g. Health checks and/or Gateway reviews). Full evaluation of their potential business impact, availability of resource and value for money of stakeholder benefits is made by the VOSA Management Board prior to project commitment. Changes to the above and risk/issue identification are functions of this board and its programme boards.

The VOSA Directing Board and senior managers lead risk management in their Directorates, supported by a team of risk management coordinators 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 functions 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. An in-year audit review of the Risk Management process has commended these working practices.

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 courses receive guidance on VOSA's risk management and governance processes.

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 Committee. In-year, the Agency's long-term corporate risks were amalgamated with the Agency's Key Business Risks to form a combined Key Business Risk Report. This report is reviewed and updated each month by the VOSA Management Board, and quarterly by the VOSA Directing Board.

Individual Executive Directors are designated as Risk Stewards for each of the corporate risks contained in the Key Business Risk Report. Stewards monitor and/or develop controls or risk treatment plans through specific groups led by Risk Owners. Risk Owners report via the monthly Corporate Scorecard report and papers to the VOSA Directing and Management Boards.

The second tier of risk registers is maintained by senior management Risk Owners. Registers are held for business directorates, product groups, key departments, programmes and projects. Work to ensure that all 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 VOSA Directing 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 Management Office role. Change Risks are monitored and coordinated by a dedicated Risk resource in the Programme Management Office, which feeds a tripartite (Corporate Risk Manager, Head of Internal Audit and Programme Risk Manager) monthly evaluation of the Agency's top risks and the creation of the Key Business Risk Report.

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 Directorates operate with appropriate compliance and observance of our requirements for Business Planning; Risk Management & Governance; Financial Management (including contingent liabilities and 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 and information security

- the work of Internal Audit

- comments made by the external auditors in the ISA260 report 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 VOSA Management and Directing 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 and Finance and HR performance reporting

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

The VOSA 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 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. The Head of Internal Audit has provided the following statement to the DfT Group Internal Audit Opinion to which I fully concur:

I am able to report a substantial level of assurance based on the programme of internal audit reviews undertaken during the year. 62% of the system and health check reviews received a substantial assurance rating with the remaining 38% receiving a partial rating with one nil assurance comment. Although the Compliance with Working Time Regulations delivered the one nil assurance, I can report the concerted effort across VOSA to develop Health and Safety based risk assessments for all job roles was efficient and effective in addressing the weaknesses identified.

Health checks are conducted at VOSA offices and comprise of checks on specific high risk processes such as Overtime, Inspection standards and Physical Security.

The above overall opinion is further supported by the Risk Management & Corporate Governance reviews both of which received a substantial assurance marking to reflect their compliance with current requirements and guidance.

S Tetlow
Chief Executive and Accounting Officer
7th July 2008

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

Respective responsibilities of the Vehicle and Operator Services Agency, the Chief Executive as Accounting Officer and Auditor

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

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

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

In addition, I report to you if 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects VOSA's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of 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. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by VOSA and Chief Executive as Accounting Officer 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 2008 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

- information, which comprises the Directors' Report, the unaudited part of the Remuneration Report and the Management Commentary, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these Financial Statements.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

16th July 2008

Annual Accounts

Income and Expenditure account for the year ended 31 March 2008

	Notes	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Income from operations					
Income from activities	2	**154,880**		146,205	
Other operating income	2	**21,542**		19,342	
Total income from operations			**176,422**		165,547
Expenditure					
Staff costs	4	**(89,075)**		(86,268)	
Early retirement scheme costs	13	**(3,114)**		(3,367)	
Depreciation	6	**(9,146)**		(8,683)	
Impairment	6	**(233)**		(85)	
Other operating charges	3	**(92,001)**		(86,459)	
			(193,569)		(184,862)
Operating deficit			**(17,147)**		(19,315)
Interest receivable			**3,127**		3,825
Net deficit on ordinary activities			**(14,020)**		(15,490)
Surplus/(deficit) on disposal of Fixed Assets	6		**959**		(154)
Interest payable	5a		**(3,568)**		(2,870)
Dividend payable	5b		**0**		0
Retained deficit for the year			**(16,629)**		(18,514)
Retained surplus brought forward			**2,670**		21,184
Retained (deficit)/surplus carried forward			**(13,959)**		2,670

The income and operating deficit shown above are derived entirely from continuing activities.
The notes on pages 54 to 71 form part of these accounts.

Statement of total recognised gains and losses

	2008 £'000	2007 £'000
Deficit for the financial year	**(16,629)**	(18,514)
Unrealised surplus on revaluation of assets (see Note 6)	**1,323**	4,353
Total recognised losses relating to the year	**(15,306)**	(14,161)

Balance Sheet as at 31 March 2008

	Notes	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Fixed assets					
Tangible assets	6		**141,779**		124,821
Current assets					
Debtors	7	**21,979**		27,010	
Cash in hand and at bank	12	**71,965**		80,428	
		93,944		107,438	
Creditors					
Amounts falling due within one year	8a	**(84,447)**		(83,515)	
Net current assets			**9,497**		23,923
Creditors					
Amounts falling due after more than one year	8b		**(34,977)**		(34,168)
Provision for liabilities and charges	13		**(2,668)**		(1,961)
Net assets			**113,631**		112,615
Financed by:					
Capital and reserves					
Public Dividend Capital	14/15	**28,983**		28,983	
Loans from the Secretary of State	17	**82,713**		66,391	
Revaluation Reserve	14	**15,894**		14,571	
Income and Expenditure account	14	**(13,959)**		2,670	
			113,631		112,615

S Tetlow
Chief Executive and Accounting Officer
7th July 2008

The notes on pages 54 to 71 form part of these accounts.

Cash flow statement for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Reconciliation of operating deficit to net cash outflow from operating activities			
Operating deficit		**(17,147)**	(19,315)
Depreciation	6	**9,146**	8,683
Impairment	6	**233**	85
Net movement in early retirement provision	13	**707**	793
Decrease/(increase) in debtors before interest	7	**4,972**	(877)
Increase/(decrease) in creditors	8a/b	**325**	(7,104)
Net cash outflow from operating activities		**(1,764)**	(17,735)
CASH FLOW STATEMENT			
Net cash outflow from operating activities		**(1,764)**	(17,735)
Returns on investments and servicing of finance	11a	**(382)**	999
Capital expenditure	11b	**(24,171)**	(23,127)
Net cash outflow before financing		**(26,317)**	(39,863)
Financing	11c	**17,854**	13,508
Decrease in cash	12	**(8,463)**	(26,355)
Reconciliation of net cash flow to movement in net funds (note 12)			
Decrease in cash in the period		**(8,463)**	(26,355)
Repayment of loan from Secretary of State		**5,146**	3,978
Capital element of finance leases		**0**	14
New loan from Secretary of State issued in-year		**(23,000)**	(17,500)
Change in net funds		**(26,317)**	(39,863)
Net funds at 1 April		**8,891**	48,754
Net funds at 31 March		**(17,426)**	8,891

The notes on pages 54 to 71 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2007/08 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. Basis of preparation

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

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. The scheme actuary valued the scheme as at 31 March 2007. 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 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 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 (included within Testing) were carried out in the United Kingdom.

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

	2007/08		2006/07	
	Income	**Surplus/ (Deficit)**	Income	Surplus/ (Deficit)
Activity	**£'000**	**£'000**	£'000	£'000
Testing	**63,071**	**(7,484)**	61,695	(454)
Administration of MOT testing scheme and standards control	**43,949**	**(10,943)**	38,773	(17,020)
Enforcement work*	**33,363**	**1,183**	31,007	1,542
Licensing & Compliance	**14,497**	**82**	14,730	(1,033)
Total	**154,880**	**(17,162)**	146,205	(16,965)

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

The (deficit)/surplus is stated after charging £1,334,368 (2006/07 £660,000) being the amortisation of early retirement costs. Additionally the MOT scheme bears the cost of the MOT Computerisation project.

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 DfT. This income is netted off the expenditure 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:

	2007/08 £'000	2006/07 £'000
Hire of plant and machinery	**346**	284
Rent	**3,299**	3,040
Rates	**2,409**	2,431
Estate running and maintenance costs	**7,401**	6,828
Equipment maintenance costs	**2,528**	1,905
Postage and stationery	**2,245**	2,027
Travel and subsistence	**7,001**	6,866
Telecommunication costs	**2,172**	2,005
Information technology - MOT Computerisation	**29,351**	31,999
Information technology - Other	**20,868**	18,651
Legal and banking	**2,101**	1,504
Training and Conferences	**948**	518
Advertising	**294**	517
Publications	**563**	296
Audit fee - audit services	**53**	52
Rental income	**(1,061)**	(1,066)
Consultancy	**3,732**	3,675
*Recruitment	**1,483**	0
Traffic Commissioners and Deputy Traffic Commissioners	**1,202**	1,147
Other	**5,066**	3,780
Total of other operating charges	**92,001**	86,459

*During the latter part of 2006/07 we entered into a business partnership for the delivery of our recruitment process.

4. Staff costs

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

	2007/08 £'000	2006/07 £'000
Wages and salaries	**64,683**	63,574
Agency staff & Consultants	**7,704**	5,848
Social Security costs	**4,890**	4,960
Other pension costs	**11,798**	11,886
Total staff costs	**89,075**	86,268

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

For 2007/08, employer contributions of £11,738,000 were payable to the PCSPS (2006/07 £11,836,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates remained unchanged from 2006/07). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 1 April 2008 the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £60,000 (2006/07 £50,000) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employees' contributions up to 3% of pensionable pay.

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

		2007/08 Number	2006/07 Number
VOSA Pay Level	**Broad category of staff in band**		
1	Handypersons	**28**	31
2	Testers, Assistant Administrative Officers	**174**	219
3	Vehicle Inspectors, Administrative Officers, Apprentices	**884**	957
4/5	Vehicle and Traffic Examiners, Executive Officers	**862**	891
6	Senior Vehicle Examiners, Senior Traffic Examiners, Higher Executive Officers	**330**	326
7	Area and Regional Managers, Senior Executive Officers	**101**	99
8/9	Senior Management	**47**	45
10	Directors	**6**	6
	Senior Civil Servants	**4**	4
	Average number of employees	**2,436**	2,578
	Average number of Traffic Commissioners and Deputy Traffic Commissioners support (shown in man years)	**10**	10
	Agency and Contractor support (shown in man years)	**161**	139
	Secondments Inward (shown in man years)	**0**	2
	Secondments Outward (shown in man years)	**(3)**	(5)

Much of the above reduction in average number of employees is due to efficiency savings through testing transformation and the centralisation of the operator licensing operation, and due to the planned reinvestment of front-line staff yet to be realised.

5. Interest and dividend payable

a. Interest payable

	2007/08 £'000	2006/07 £'000
On replacement vesting loan	**608**	640
On loan issued in 1996 - 1997	**30**	50
On loans issued in 2000 - 2001	**0**	0
On loans issued in 2003 - 2004	**660**	703
On loans issued in 2004 - 2005	**225**	244
On loans issued in 2005 - 2006	**906**	980
On loans issued in 2007 - 2008	**887**	0
In lieu of dividend on Public Dividend Capital in respect of current year	**252**	252
Interest payable to the Secretary of State	**3,568**	2,869
Interest payable on Finance Lease	**0**	1
Total interest payable	**3,568**	2,870

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.

b. Dividend payable

VOSA's average rate of return on capital to March 2008 was (2.2)% against the financial target of an average 3.5%, as stated in Annex A on page 72 of the Annual Report. A dividend is payable from this target. This dividend is limited to the annual average target of 3.5%.

	2007/08 £'000	2006/07 £'000
Calculated level of return on average assets at 3.5%	**3,959**	3,973
Interest paid to the Secretary of State	**(3,568)**	(2,869)
Loan Capital repayment	**(5,146)**	(3,978)
Actual Return made in-year	**(8,714)**	(6,847)

The calculated level of return to the Treasury is £3,959,000 based on the target average return of 3.5%. As the interest paid on long term loans of £3,568,000 and the capital repayment in-year of £5,146,000 total more than the calculated level of return no dividend is payable in respect of the 2007/08 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 Equipment	Vehicles	Finance Leased Equipment	Computer Equipment	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation									
At 1 April 2007	117,998	15,109	4,242	23,827	5,321	900	31,796	16,693	215,886
Additions	4,121	2,300	291	4,667	73	0	441	13,766	25,659
Disposals	(688)	0	0	(833)	(452)	0	0	0	(1,973)
Reclassification	1,093	1,654	0	269	0	0	4,025	(7,041)	0
Revaluation	1,452	(486)	0	560	(19)	0	(1,130)	0	377
At 31 March 2008	123,976	18,577	4,533	28,490	4,923	900	35,132	23,418	239,949
Accumulated depreciation									
At 1 April 2007	41,329	1,498	1,734	16,472	3,883	900	25,249	0	91,065
Charge for year	2,343	416	386	2,822	663	0	2,516	0	9,146
Disposals	(63)	0	0	(824)	(441)	0	0	0	(1,328)
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation depreciation	(126)	(58)	0	381	(13)	0	(897)	0	(713)
At 31 March 2008	43,483	1,856	2,120	18,851	4,092	900	26,868	0	98,170
Net Book Value At 31 March 2008	80,493	16,721	2,413	9,639	831	0	8,264	23,418	141,779
At 1 April 2007	76,699	13,611	2,508	7,355	1,438	0	6,547	16,693	124,821

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

Property Valuations

Twenty percent of VOSA's land and buildings were valued at 1 March 2008 by Valuation Office Agency (VOA) on the basis of market value for existing use in accordance with RICS guidance.

All properties were occupied by VOSA during the year.

The valuation of properties has resulted in valuations which are not felt to reflect the value of the properties to the organisation and this is addressed below.

The valuation of freehold properties has resulted in the values of land being increased by £1,600,000 but the value of the buildings has seen a decrease of £1,700,000. Within this buildings valuation are two properties which have been refurbished since their last valuation, at a cost of £2,966,000 but which have seen a downward valuation of £1,500,000. Effectively this means that the expenditure incurred on the two properties has added no value to the properties.

The valuation of leasehold properties has resulted in a downward valuation of £5,300,000. Of this, £4,800,000 is attributed to a single property that was a new build five years ago at a cost of £7,323,000. Again the fall in value effectively means that the expenditure incurred on the property has added no value to the property.

The FReM requires the results of valuations to be reflected in the financial statements as either an adjustment to the revaluation reserve or as an 'in-year' charge to the income and expenditure account dependent on whether the downward valuation is considered to be of a temporary or permanent nature.

These valuations have not been accounted for under the 'true and fair' override. This is on the basis that accounting for the valuation would result in the costs incurred not being matched with the benefits realised and as a result the financial statements would not give a true and fair view. The impact of this is that the book value of these properties, £9,800,000, including expenditure of £10,289,000 has been retained in the financial statements with the fall in value of £6,300,000 not being recognised. Had this adjustment been considered of a permanent nature the impact would have been an increase in the deficit in the year of £6,300,000 and a fall in net assets of the same amount.

As VOSA has embarked on a major refurbishment of our properties in recent years it is likely that this issue of valuations will occur in the future. We have discussed this matter with VOA and are now considering that due to the investment in these properties that they should be treated as specialist properties and should as a result be valued on a depreciated replacement cost basis rather then the existing use basis currently employed.

Other Asset Valuations

Plant, vehicles and computing assets were revalued by using appropriate indices.

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

The net surplus arising in the year is £1,090,000 (2007 £4,268,000 surplus), of which an amount of £1,323,000 (2007 £4,353,000) has been credited to the revaluation reserve.

The deficit of £233,000 on computing equipment (2007 £85,000 on computing equipment) has been charged to the income and expenditure account.

Assets in the category of vehicles with the net book value of £11,000 were sold for £41,000, assets in the category of plant and equipment with a net book value of £9,000 were sold for £63,000 and an asset in the category of freehold land and buildings with a net book value of £625,000 was sold for £1,500,000. The net gain of £959,000 has been treated as an exceptional item on the income and expenditure account.

7. Debtors

a. Amounts falling due within one year

	31 March 2008 £'000	31 March 2007 £'000
Trade debtors	**1,287**	1,575
Other debtors	**2,066**	4,733
Loans to staff	**102**	127
Prepayments and accrued income	**1,700**	*3,028
Sub total	**5,155**	9,463
Accrued interest	**241**	300
Total falling due within one year	**5,396**	9,763
Amounts falling due after more than one year:		
Prepayments and accrued income	**16,583**	*17,247
Total debtors	**21,979**	27,010

*Prepayments within these categories have been re-classified in-year.

The amounts falling due after more than one year, shown as prepayments and accrued income, reflect payments designed to secure future benefits through phased cost reductions over the remaining 7 years of a 10 year contract.

b. Intra-Government Debtor Balances

	31 March 2008 £'000	31 March 2007 £'000
Balances with other Central Government bodies	**2,621**	5,454
Balances with Local Authorities	**74**	13
Balances with Public Corporations and Trading Funds	**591**	283
Balances with bodies external to Government	**18,693**	21,260
Total	**21,979**	27,010

8. Creditors

a. Amounts falling due within one year:

	31 March 2008 £'000	31 March 2007 £'000
Fees in advance	**13,605**	*13,066
Other creditors	**19,054**	*31,521
Accruals and deferred income	**39,871**	*28,427
Sub total	**72,530**	73,014
Capital accruals	**5,239**	5,355
Long term loan due within one year	**6,678**	5,146
Total creditors	**84,447**	83,515

*Creditors included within these categories have been re-classified in-year.

Included within other creditors is an amount of £10,548,000 (2006/07 £17,990,000) in respect of funding received from DfT 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 2008 £'000	31 March 2007 £'000
Total creditors falling due after one year	**34,977**	**34,168**

The totals above relate to fees in advance due after one year.

c. Intra-Government Creditor Balances

	2008		2007	
	Creditors due within 1 year £'000	**Creditors due after 1 year £'000**	Creditors due within 1 year £'000	Creditors due after 1 year £'000
Balances with other Central Government bodies	**17,650**	**0**	23,135	0
Balances with Local Authorities	**287**	**0**	0	0
Balances with Public Corporations and Trading Funds	**13**	**0**	0	0
Balances with bodies external to Government	**66,497**	**34,977**	60,380	34,168
Total	**84,447**	**34,977**	83,515	34,168

9. Finance leases

As at 31 March 2008 there were no obligations under finance lease agreements.

10. Average return on capital

The average return on net assets over the period 1 April 2003 to 31 March 2008 was (2.2)%. This compares with the target, as stated in Annex A on page 72 of the Annual Report, of an average of at least 3.5% over the period 1 April 2003 to 31 March 2008. See page 32 in the Management Commentary of this report for a more detailed explanation of the average ROC.

11. Notes to the cash flow statement

	2008 £'000	2007 £'000
a. Return on investments and servicing of finance		
Interest receivable in-year	**3,127**	3,825
Interest accrued at 1 April	**300**	344
Interest accrued at 31 March	**(241)**	(300)
Interest received in-year	**3,186**	3,869
Interest paid in-year	**(3,568)**	(2,870)
Net interest (paid)/received	**(382)**	999

	2008 £'000	2007 £'000
b. Capital expenditure		
Fixed asset additions	**(25,659)**	(27,881)
Capital creditors at 1 April	**(5,355)**	(688)
Capital creditors at 31 March	**5,239**	5,355
Payments to acquire fixed assets	**(25,775)**	(23,214)
Receipts from sale of fixed assets	**1,604**	87
Net payments to acquire fixed assets	**(24,171)**	(23,127)

	2008 £'000	2007 £'000
c. Financing		
Repayment of Loan from Secretary of State	**(5,146)**	(3,978)
New Loan from Secretary of State - note 17	**23,000**	17,500
Capital Repayment of Finance Lease	**0**	(14)
Net Financing	**17,854**	13,508

12. Analysis of changes in net funds

	At 1 April 2007 £'000	Cash Flow £'000	Other Changes £'000	**At 31 March 2008 £'000**
Cash in hand, and at bank	**80,428**	(8,463)	0	**71,965**
Loans due within one year	**(5,146)**	5,146	(6,678)	**(6,678)**
Loans due after one year	**(66,391)**	(23,000)	6,678	**(82,713)**
Total	**8,891**	(26,317)	0	**(17,426)**

As at 31 March 2008, within Cash in hand, and at bank, £71,600,000 (£66,900,000 31 March 2007) represents fees received in advance and deferred income between 1-5 years which is repayable on demand.

13. Provision for liabilities and charges

	Early Retirement Total Costs £'000
At 1 April 2007	**1,961**
Provision in-year	**3,114**
Payments during the year	**(2,407)**
At 31 March 2008	**2,668**

Under VOSA's Early Retirement scheme an additional provision of £2,536,000 was made in-year (2006/07 £2,749,000) for retirements or inflationary pension increases. An amount of £1,801,000 (2006/07 £1,956,000) was transferred from the provision to fund pensions and related benefits payment. An additional £606,000 (2006/07 £618,000) has been provided for and paid in respect of 25 (2006/07 42) employees leaving VOSA under Early Severance terms and conditions. Seven people voluntarily retired early during 2007/08 on ill-health grounds with no additional accrued pension liabilities in the year.

14. Reconciliation of movements in capital and reserves (Government Funds)

	Public Dividend Capital £'000	Loans from the Secretary of State £'000	Revaluation Reserve £'000	Income and Expenditure Account £'000	Total £'000
Government Funds at 1 April 2007	28,983	66,391	14,571	2,670	**112,615**
Deficit for the year	0	0	0	(16,629)	**(16,629)**
Surplus on asset revaluation	0	0	1,323	0	**1,323**
New loans vested in-year	0	23,000	0	0	**23,000**
Loan repaid in-year	0	0	0	0	**0**
Transfer to Short Term Creditors	0	(6,678)	0	0	**(6,678)**
Total surpluses and deficits recognised since last annual report	0	16,322	1,323	(16,629)	**1,016**
Government Funds at 31 March 2008	**28,983**	**82,713**	**15,894**	**(13,959)**	**113,631**

15. Public Dividend Capital

	2008 £'000	2007 £'000
As at 1 April	**28,983**	28,983
As at 31 March	**28,983**	28,983

Public Dividend Capital (PDC) of £19,100,000 was issued to the Trading Fund on 1 April 1991. This represented 57% of the value of the assets vested at that date. In 1996/97 additional PDC of £1,231,000 was issued. This represented 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate. Additional PDC was issued of £8,652,000, being 50% of the vesting capital of the new Trading Fund Order upon the merger of TAN and VI on 1 April 2003. The total PDC issued at 31 March 2008 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 DfT, 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 DfT 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).

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.

As permitted by Financial Reporting Standard (FRS) 3, short term debtors and creditors have been excluded from the currency profile.

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 2008 £'000	31 March 2007 £'000
In one year or less, or on demand	**6,678**	5,146
In more than one year but less than two years	**6,678**	5,146
In more than two years but no more than five years	**20,034**	15,436
In more than five years	**56,001**	45,809
Total	**89,391**	71,537

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)	After one year (included in Capital & Reserves)
	£'000	£'000
Loans outstanding at 31 March 2008 comprise:		
Replacement Vesting Loan issued in 2006/2007 20 year repayment loan at 4.55%	712	12,109
Loan issued in 1996/1997 20 year repayment at 8.25% interest	62	431
Loan issued in 2003/2004 15 year repayment at 4.35% interest	581	5,229
Loan issued in 2003/2004 15 year repayment at 4.9% interest	677	6,430
Loan issued in 2004/2005 15 year repayment at 4.6% interest	400	4,200
Loans issued in 2005/2006 15 year repayment at 4.4% interest	880	9,680
Loan issued in 2005/2006 15 year repayment at 4.5% interest	667	8,000
Loan issued in 2006/2007 15 year repayment at 5.15% interest	1,167	15,167
Loans issued in 2007/2008 15 year repayment at 4.54% interest	1,532	21,467
Total of maturity and repayable loans	6,678	82,713

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 converted into a 20 year repayment loan at 4.55% in the 2005/06 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 SSDL 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 SSDL Agencies. A 15 year repayment loan of £10,000,000 at 4.5% was issued for estate improvements at the end of the year.

At the end of 2006/07 a 15-year repayment loan of £17,500,000 at 5.15% was provided to further the refurbishment of the VOSA estate, equipment and the continuation of work on the Commercial Customer Portal.

At the end of 2007/08, two 15-year repayment loans of £20,000,000 and £3,000,000 were issued at 4.54% to further the refurbishment of the VOSA estate and equipment.

All loans are unsecured.

18. Capital commitments

There were capital commitments of £12,215,000 (2006/07 £11,864,000) due within one year relating to Computer System Development, Estates and Equipment Modernisation and the purchase of Fleet Vehicles.

19. Other commitments

As at 31 March 2008 VOSA had annual commitments under operating leases as follows:

	2008 Land and Buildings £'000	2008 Other £'000	2007 Land and Buildings £'000	2007 Other £'000
Expiry date:				
Within one year	875	0	979	0
Between one and five years	1,097	0	1,051	0
After more than five years	974	9,027	951	9,295
Total	**2,946**	**9,027**	2,981	9,295

20. Related party disclosures

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

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 2008.

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.

In response to the Davidson Review of the Implementation of European Legislation, the government continues to reflect upon the frequency of MOT testing and other matters. VOSA's mid-term plans will respond to that undertaking and any consequential changes to regulations.

DfT have completed a feasibility study to assess different organisational options for the future of VOSA. With that work now completed, a clear agenda has been set by the Secretary of State to take forward a public sector VOSA.

Authorisation of Accounts

These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. FRS 21 requires VOSA to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by VOSA's management to the Secretary of State of the Department for Transport. The authorised date for issue is 17th July 2008.

Annex A

Treasury Minute setting VOSA's further financial objectives

Vehicle and Operator Services Agency

Setting of further financial objectives for the period 1 April 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

AE	Authorised Examiner
ANPR	Automatic Number Plate Recognition
CETV	Cash Equivalent Transfer Values
DfT	Department for Transport
DVLA	Driver and Vehicle Licensing Agency
EBSR	Electronic Bus Service Registration
EU	European Union
FTE	Full Time Equivalent
FRS	Financial Reporting Standard
HA	Highways Agency
HGV	Heavy Goods Vehicle
HR	Human Resources
IiP	Investors in People
ISO	International Organisation for Standardisation
LEZ	Low Emission Zone (London)
LGV	Light Goods Vehicle
MOA	Memorandum of Agreement
MOD	Ministry of Defence
MOT	Annual statutory test for cars and motorcycles
PCSPS	Principal Civil Service Pension Scheme
PDC	Public Dividend Capital
PFI	Private Finance Initiative
PPM	Project and Programme Management network
PRI	Pre Registration Inspection (for passenger-carrying vehicles)
PSV	Public Service Vehicle
ROC	Return on Capital
SAFED	Safe and Fuel Efficient Driving
SBS	Siemens Business Services
SDAP	Sustainable Development Action Plan
SLAs	Service Level Agreements
SSDL	Safety, Service Delivery and Logistics (division of DfT)
TCs	Traffic Commissioners
VIC	Vehicle Identity Check
VIN	Vehicle Identity Number
VIPER	Vehicle Identification and Pre-selection Enforcement Resource
VOA	Valuation Office Agency
VOSA	Vehicle & Operator Services Agency
VTS	Vehicle Testing Station
WIMS	Weigh in Motion Sensor

Notes

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ID5906199 09/08

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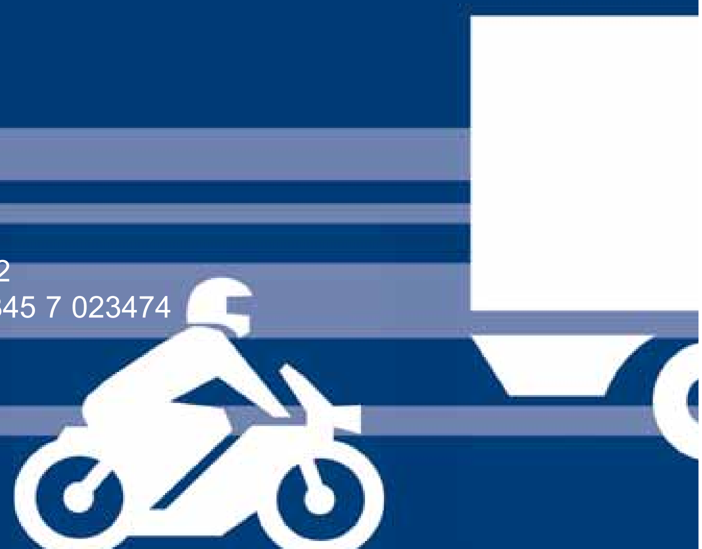

ISBN 978-0-10-295775-4