Driving Standards Agency

Annual Report and Accounts 2013-14

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

25 June 2014

HC 298

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at Driver & Vehicles Standard Agency (DVSA), Berkeley House, Croydon Street, Bristol BS5 0DA

Print ISBN 9781474105279
Web ISBN 9781474105286

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 2647634 06/14
Printed on paper containing 75% recycled fibre content minimum

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Foreword

From the Chief Executive, Alastair Peoples

As the new Chief Executive of the Driving Standards Agency I'm pleased to introduce the annual report and accounts for 2013-14.

It has been a year of challenges and successes where I am particularly pleased we have met 18 of our 20 performance measures against a backdrop of change.

The 2 measures we missed were:

- 10% complaints reduction – narrowly missed the measure by 0.06%; achieving 10.86% against a measure of 10.8%. New procedures have been introduced for 2014-15 that are already bringing this figure down
- sickness absence – against the measure of 7.5 days per employee per year we ended the year at 10.28 days

We finished the year making a surplus of £18.4 million through:

- higher than expected test demand and throughput
- continuing tight expenditure controls
- making over £5 million of efficiency savings.

In January 2014, Stephen Hammond, Parliamentary Under Secretary of State for Transport MP announced that new contract arrangements for the theory test will result in savings in excess of £100 million over the next 9 years. This will let us reduce the cost of theory tests, subject to consultation.

We have excelled in our aim to become a digital organisation by 2015. In 2013-14 we have increased our electronic take-up of digital services to 95% against a measure of 90%.

In June 2013, the Minister issued a statement to the House of Commons outlining changes to the role of the agency following the consultation on the Department's Motoring Services strategy as part of our commitment to delivering better quality and better value services to the public and business.

A decision was made to create a new single agency through the merging of the Driving Standards Agency (DSA) and the Vehicle and Operator Services Agency (VOSA). This will enable a single agency to deliver the same high quality service, while making it easier for customers to navigate the services offered; and will reduce the administrative burden for those individuals and businesses that currently have regular contact with both DSA and VOSA.

In November 2013, the Minister announced that the new agency will be called the Driver & Vehicle Standards Agency (DVSA). Furthermore, DSA and VOSA will continue to be two separate trading funds until April 2015 when DVSA will gain trading fund status. This report will focus on the performance of DSA-related activity, with a separate annual report being produced for VOSA's performance during 2013-14.

These are just some of the highlights from this year's performance, more of which can be found within the strategic report starting on page 3.

Introduction

About the agency

Throughout 2013-14 the Driving Standards Agency (DSA) was an executive agency of the Department for Transport (DfT).

DSA's vision is to offer the very best public service we can – one that is reliable, cost-effective, adaptable and efficient. We aspire to be 'best in class' in providing services to our customers in line with government policy.

As published in our business plan 2013-14, DSA committed to:

- continue to develop, publish, review and improve evidence-based driving and riding standards, driver/rider training standards and standards for remedial programmes, like drink-drive rehabilitation
- continue to review and develop our driving and riding tests and the way in which driving and riding instructors qualify and are assessed
- carry out driving tests and assessments fairly, equitably and efficiently
- be an effective and efficient regulator - we will work with our colleagues, in DfT and elsewhere, to develop and implement regulation that promotes economic growth and minimises the burden on those that we regulate
- meet our obligations as a government agency providing services for central government, as part of the DfT family
- run the organisation effectively and efficiently, with the right people with the right skills in the right place at the right time with systems to support them
- support the government's strategic framework for road safety, the DfT motoring services strategy and align with the DfT business plan, and meet the DfT digital strategy

On 20 June 2013, the Road Safety Minister issued a statement to the House of Commons outlining changes to the role of the agency following the consultation on the Department's Motoring Services strategy that ran from 13 December 2012 to 7 March 2013 as part of our commitment to delivering better quality and better value services to the public and business.

A new single agency will bring together all of the services that are currently provided by the Driving Standards Agency and the Vehicle and Operator Services Agency (VOSA). This will enable a single agency to deliver the same high quality service, while making it easier for customers to navigate the services offered; and is intended to reduce the administrative burden for those individuals and businesses that currently have regular contact with both DSA and VOSA.

DVSA was formally launched on 2 April 2014.

About this report

This annual report and accounts is the principal means for formally reporting to Ministers and Parliament on DSA's performance and its statutory financial statements. It covers the period from 1 April 2013 to 31 March 2014.

Strategic Report

Introduction

The business objectives of the Driving Standards Agency (DSA) were set out in our 2013-14 business plan. This reports sets out achievements against this plan. It meets HM Treasury requirements for disclosure of matters to be dealt with in the directors' report, the strategic report and the remuneration report and provides a high level overview of the main areas of the agency's financial performance.

The role of DSA

DSA was created in April 1990 as an executive agency of the Department for Transport (DfT). On 1 April 1997 DSA attained trading fund status under the provisions of the Government Trading Funds Act 1973, as amended. DSA's core business is conducting theory and practical tests for drivers of cars, lorries, passenger vehicles and riders of motorcycles, together with the control of the register of approved driving instructors (ADIs). The primary aim of the DSA is to promote road safety in Great Britain through improving driving standards and to test drivers, motorcyclists and driving instructors fairly and efficiently through the theory and practical driving tests.

Business change

Following the decision to merge DSA and VOSA, the Minister announced on 28 November 2013 that the new agency will be called the Driver & Vehicle Standards Agency (DVSA). DSA and VOSA will continue to be two separate trading funds until April 2015. DVSA will then gain trading fund status under the provisions of the Government Trading Funds Act of 1973, amended.

As the statutory duties of DSA and VOSA will continue to be provided by the new agency, DVSA, following the merger; management considers it appropriate to continue to adopt the going concern basis in preparing the annual report and accounts.

The primary aim of DVSA is to contribute to saving lives, making roads safer, cutting crime and protecting the environment through ensuring compliance with regulations of drivers, instructors, operators, vehicles, MOT garages and maintainers.

Statutory framework

The statutory framework within which the DSA conducts driving tests is Part III of the Road Traffic Act 1998 [as amended] together with the Motor Vehicles (Driving Licences) Regulations 1999 (SI 1999/No 2864) [as amended].

Equal opportunities and diversity

DSA is committed to being an organisation in which fairness and equality of opportunity is central to the approach in business and working relationships and where the organisational culture reflects and supports these values.

DSA values having a diverse workforce and is committed to recruiting, retaining, and promoting the best people. Of the eight directors and non-executive directors in post at 31 March 2014, two were female and six were male. Of 45 senior managers in post at 31 March 2014, 11 were female. In the workforce as a whole, 29% were female as at 31 March 2014.

DSA operates a number of staff network groups: race, disability, sexual orientation, and age, to help promote the diversity and inclusion agenda within DSA, acting as a sounding board for DSA on these issues.

DSA business success is dependent upon harnessing all the talents that its staff brings and it recognises that the organisation needs to be flexible to allow everyone to make the best contribution they can, by training, development and advancement.

Formal and informal negotiations and consultations are conducted with trade unions.

Delivery of our business plan 2013-14

Performance Summary

Throughout the year DSA performance has been scrutinised by the Performance Management Group (until September 2013) and then the Business Performance Board (from October 2013). Motoring Services receive a monthly summary as part of DfT's performance review.

In 2013-14 we have achieved 18 out of 20 published performance measures.

Performance measure	Met / Not Met	Outcome
Increase the take-up of digital services to 90% by 31 March 2014	√	95.1%
Take forward the Motoring Services Strategy: • work towards migrating into the new shared service provider • pilot to investigate the use of mobile IT for driving examiners by 31 March 2014 • Review models for best business delivery	√	Met
Offer 95% of candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date	√	98.5%
Keep 99.5% of theory test appointments	√	100%
Offer an appointment within 9 weeks at 90% of permanent car practical driving test centres	√	98%
Keep 99% of practical tests which are in place 3 days prior to test at permanent driving test centre	√	99.6%
Maintain customer satisfaction for candidates (86%) and business candidates (78%) on the 2012-13 outturn	√	Candidates – 91% Business Customers – 83%
To reduce to 10.8% the number of complaints not resolved at first contact as compared with 2012-13	×	10.86%
Freedom of information – provide 93% of responses within 20 working days	√	98.6%
Parliamentary Questions – Provide 100% of responses by due date	√	100%
Ministerial Correspondence – Provide 100% of responses within 7 working days	√	100%
Official Correspondence – Provide 80% of responses to official correspondence within 20 working days	√	100%
Driver Certificate of Professional Competence (CPC) • Achieve 95% of planned (compliance and quality assurance) centre audits for the year (cumulative) • Achieve 90% of planned (compliance and quality assurance) course audits for the year (cumulative)	√ √	106% 134%
Ensure the average number of working days lost due to sickness does not exceed 7.5 days	×	10.28 days
Staff numbers/full time equivalents (FTE) as at 31 March 2014 will be no more than 2,200	√	2119.70 FTE

Performance measure	Met / Not Met	Outcome
Deliver driving examiner utilisation of 80%	√	82.5%
Achieve £2m surplus in line with the business plan	√	£18.4m surplus
Achieve efficiency savings of £5m by 31 March 2014	√	£5.02m
Cut carbon emissions by 20% from agency activities compared with 2009-10 baseline	√	-22.6%
80% payment of invoices within 5 working days	√	99.5%

Customer experience
Customers are at the heart of everything we do. Public service reform puts the customers at the forefront of service design and delivery. Ongoing customer surveys ensure we understand their needs and can measure how well we are delivering our services to meet their requirements.

Customer Service Excellence
We have for the fifth year running retained the Customer Service Excellence standard. The standard considers areas such as business delivery, timeliness, information, professionalism and staff attitude whilst measuring whether our services are efficient, effective, excellent, equitable and empowering.

Customer operations
Our customer support team in Newcastle has been awarded the Customer Contact Accreditation for its high level of efficiency without compromising the service provided to customers.

Customer communications
During 2013-14, 2 magazines were published; ‘First Car’ for learners and new drivers and ‘Glovebox’ for theory test customers. In December 2013, the ‘First Car’ magazine won the ‘Circulation Initiative of the year 2013’ category at the PPA Independent Publishers Awards ceremony.

We have also had a huge success in customers using digital communications such as Facebook and Twitter. At the end of March 2014 we had over 54,000 followers on Facebook and over 47,000 on Twitter.

Information assurance
Information assurance continued to support the agency in meeting business and statutory obligations in 2013-14. Activities carried out in 2013-14 were:

- auditing and conducting compliance assessments of organisations in DSA’s supply chain, key business processes and ICT systems
- delivery of an information assurance and security training and awareness programme to all staff with the main focus being on the new government security classification policy and the changes this required in terms of handling information and individual responsibility
- meeting legislative requirements, including the Freedom of Information and Data Protection Acts – exceeding the targets set out within legislation and the agency’s business plan
- continuing to report to the Barclaycard risk reduction programme with a view to working towards certification to the payment card industry security standard
- proactively publishing data, including Official Statistics relating to driving instruction and the theory and practical test, in line with the government’s transparency agenda

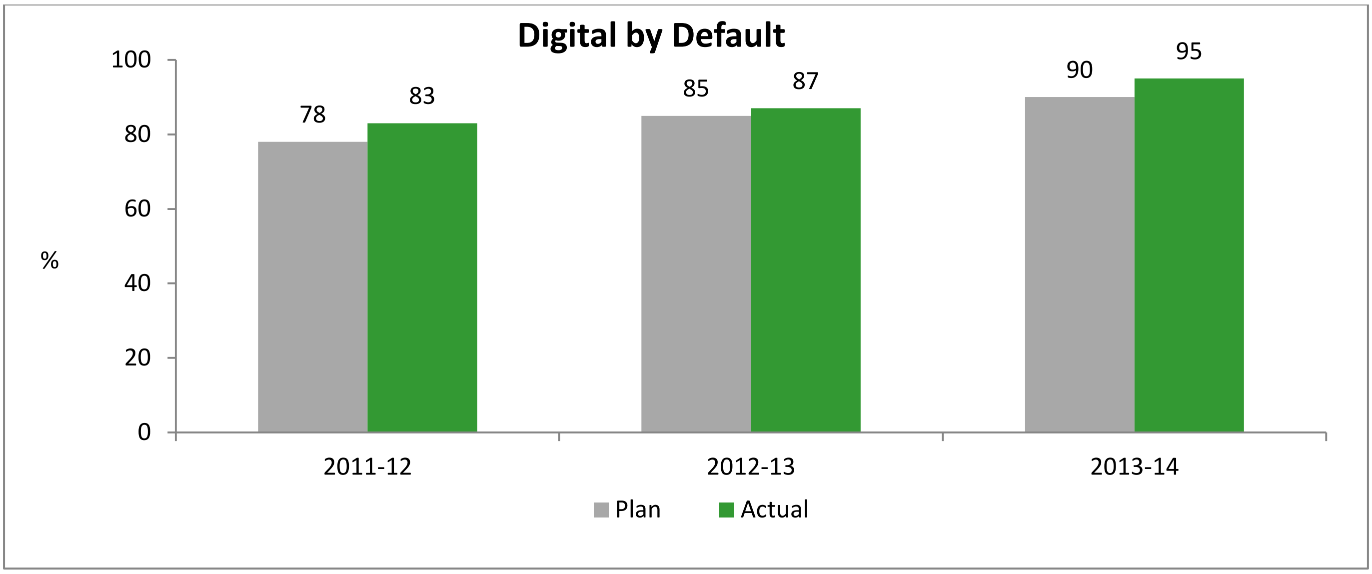
Information and communication technology (ICT)

Over the last year we have moved our wide area network for the driving test centre network to a new supplier giving increased network speeds to users. We have upgraded our computers and laptops to Windows 7. As part of our ICT Business Change project we have been actively going through the procurement processes to replace our existing IT contract with a service integration and management and towers model. This will continue into 2014-15.

Digital services

DSA has continued to support the government and DfT 'Digital by Default' strategies. Greater understanding of user needs has been built by providing direct online feedback facilities for our customers, and implementing a range of web analytics tools. Significant investment has been made into implementing continual improvements to our online services via an iterative delivery process using the Agile methodology – informed by the analysis of our users' needs.

This process has contributed to the achievement of a significant increase in overall digital take-up across our services to over 95% in 2013-14 (from 87% in 2012-13), substantially exceeding the 90% measure.



Test demand and throughput

Testing activities

2013-14 has been a year of two distinct halves. The first showed demand still in decline in some testing categories, particularly car practical test. The second started with a levelling off of demand and then an upturn. This directly relates to when the UK started to see consistent improvement in economic growth.

Cars

000's	2011-12 Actual	2012-13 Actual	2013-14 Plan	2013-14 Actual
Theory test				
Demand	1,521	1,424	1,350	1,769
Throughput	1,509	1,365	1,350	1,685
Practical test				
Demand	1,584	1,486	1,470	1,523
Throughput	1,621	1,485	1,489	1,522

Demand for theory tests in 2013-14 was 31% above the planned forecast. This exceptional growth represents an increase of 24% compared to the previous year, and the final outturn was 172,000 higher than the highest number of tests seen previously (2007-08).

One of the main causes for this increase in demand was the fall in the pass rate for car theory tests of 12.7%, following changes to the test in January 2013. Against expectations the pass rate did not recover and stabilised at the lower level for the entire year. In addition, first time applicants were 87,000 higher than in 2012-13, and following the announcement (in October 2012) that voiceovers/translations would cease from April 2014 onwards, the number of these tests conducted over the last six months (October-March) showed a surge of 35,000.

Overall demand for car practical tests was up 2.5% on the previous year, and was 3.6% above plan. This was the first year since 2007-08 that there has been an increase in the number of first time applicants over the previous year. This increase came, in the last few months of the year. However, the number of first time applicants was down 6,000 in the first 6 months of the year compared to same period in 2012-13 and 29,000 up in the second half of the year

In comparison to the previous year, there were far fewer tests lost due to bad weather during the winter months, which may have brought forward throughput into the last quarter of 2013-14.

Motorcycles

000's	2011-12 Actual	2012-13 Actual	2013-14 Plan	2013-14 Actual
Theory test				
Demand	77	83	70	65
Throughput	73	80	70	58
Module 1				
Demand	65	71	63	52
Throughput	63	70	61	49
Module 2				
Demand	62	69	60	48
Throughput	61	69	59	46

Demand for both theory and practical motorcycle tests was down compared to last year; theory test demand was 22% down on last year and 7% below plan, whilst demand for practical tests was 29% down compared to last year and 19% below plan.

The expected trough in motorcycle theory tests occurred following the introduction of the EU 3rd Directive which harmonised driver / rider licences across member states of the European Union and this has lasted longer than anticipated.

Vocational

000's	2011-12 Actual	2012-13 Actual	2013-14 Plan	2013-14 Actual
Theory test – LGV/PCV				
Demand	40	41	39	49
Throughput	37	37	39	44
Practical Test – Lorry/bus/car and trailer (B+E)				
Demand	73	75	77	80
Throughput	72	73	76	77

Due to improved economic conditions vocational tests have shown a greater than originally anticipated growth. In addition, the multiple choice pass rate dropped by 12.3%, having a proportionate effect on demand.

Theory test demand rose by 19% from last year and was 25% above plan, whilst vocational practical test demand was 4% above plan.

Theory test

The theory elements of licence acquisition tests, as well as instructor and professional driver testing, are delivered by our partner Pearson Vue, on behalf of DSA, through a network of test centres and mobile facilities. Key performance indicators, designed to ensure that the service meets the requirements of candidates, are monitored carefully to ensure compliance. We work with them to ensure that all assessments are refreshed and up-to-date. As part of this work we will shortly replace our existing hazard perception video clips with computer generated clips. This will allow us to introduce new scenarios, which would be difficult to film safely on the road.

Following a procurement exercise the existing contract, which has been in operation since 2004, has been extended and now ends in September 2016. A contract has also been awarded to learndirect which will start in September 2016 for a period of eight years with an optional two year extension. We will continue to work with the current supplier to ensure that they meet the service requirements and will commence the planning for the transition of the contract to the new supplier in 2016.

Quality assurance

We have retained our ISO 9001:2008 accreditation for the quality control and quality assurance for practical driving tests. During 2013-14 we completed 25 quality assurance visits and undertook 201 quality control visits. We also conducted 13,108 standards checks on ADIs.

Drink drive rehabilitation scheme (DDR)

The new arrangements for approval of DDR courses were introduced late in 2012 and course approvals became effective on 24 June 2013. DSA received over 30 applications for DDR course approval. There are currently 17 approved course providers, representing a variety of organisations; large, medium and small, commercial and charitable organisations, including a new start-up business. National coverage has been maintained.

Fees introduced alongside the new arrangements for course approval have transferred the cost of the scheme from the taxpayer to the offender, following the ‘user pays’ principle.

DSA has also introduced compliance audits focused on processes and procedures at the approved course providers’ administration centre. These are currently being conducted and all approved course providers will have been audited by the end of December 2014. Course audits focused on course content, delivery and course trainers are due to be introduced later in 2014-15.

Compulsory basic training (CBT) for motorcyclists

DSA continued to quality assure instructors conducting CBT. Our CBT monitors offer development, guidance and support to the industry.

We carried out 678 checks with motorcycle trainers against a target of 600 visits. Our work with the motorcycle training industry has resulted in an improvement in training standards. 88% of trainers who were checked achieved a satisfactory rating for the training they provided.

Motorcycle testing
DSA continued to work with the motorcycle training industry and progress implementation of our review of how and where we deliver motorcycle tests in order to be more responsive to the needs of our customers. We led the implementation of the recommendations of the DfT led review of the motorcycle test.

The test review has concluded and the Minister decided the motorcycle test should remain as a 2 part off/on road test. During the course of the review we implemented a range of improvements for stakeholders and customers taking motorcycle tests through improvements to the test booking system and by increasing the number of motorcycle examiners. We also introduced module 2 (practical) tests at an additional eight driving test centres.

Learning to ride
We will carry on with our work in conjunction with the motorcycle training industry to develop proposals to improve the way people learn to ride both before and after they take their motorcycle test. We will continue our work with trainers to improve the standard of training provided by motorcycle trainers, in line with the national riding standards and the national driver and rider training standards, whilst fulfilling our regulatory responsibilities fairly and consistently.

This work was placed on hold until the outcome of the motorcycle test review was known. Once the review concluded we began work with colleagues in DfT and in March of this year commissioned research in to how CBT for motorcyclists might be improved. This will focus on how new younger riders can be better prepared to meet the challenges of motorcycling in today’s demanding traffic.

Dangerous goods
During 2013-14 DSA undertook 370 Scottish Qualification Authority visits with 330 achieving a level 1 or 2 combined (pass).

ADI Standards Check
Throughout 2013-14 we have been working on replacing the previous regulatory assessment that ADIs must pass to stay on the register with the revised standards check. The new standards check, that went live in April 2014, better assesses all of the competencies set out in the national standards and focuses on the instructor’s ability to facilitate effective learning.

Publications and learning materials
DSA’s standards for drivers, motorcyclists and those who train them only impact on safety when they are understood and practised on the road. Our publishing partners, The Stationery Office Limited, research, develop and produce official resources in all licence categories that appeal to their audiences and really help them to learn. This is supplemented and supported by The Official Highway Code and the website www.safedrivingforlife.info. In this way we ensure that effective means to achieve the national driving and riding standards are always available, nationwide, from the high street and online, in print, e-book, DVD, software and smartphone application formats.

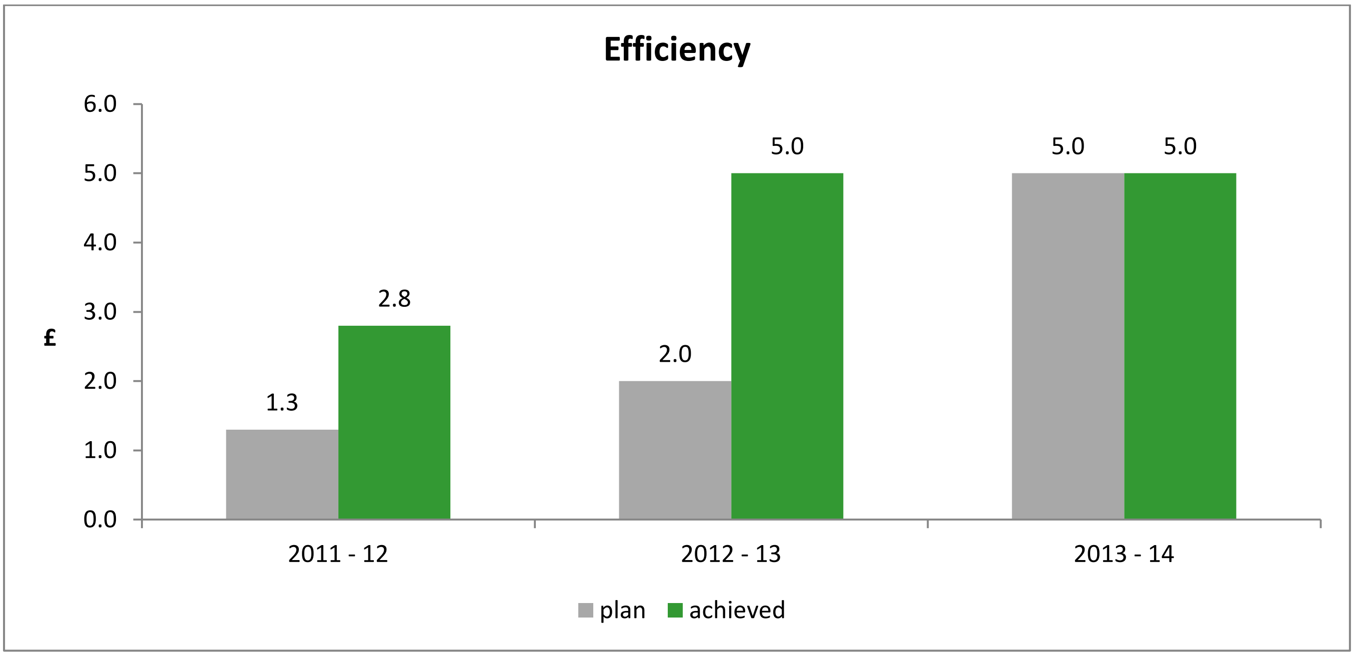
We continue to develop publications so they deliver better standards of driving generally, rather than just outlining the process and content of tests. This year the greatest progress has been in hazard perception and online guidance for a life on the road, and affordable e-book guides to help experienced drivers keep up with standards.

To support variety and choice in the market, DSA also licences the use of its theory test revisions questions, hazard perceptions clips and imagery to trainers, educators and publishers. This provides a cost effective alternative to generating and quality assuring original content, particularly for smaller businesses. In this respect we will maintain the standards set by the Information Fair Trader Scheme, as regulated by The National Archives.

Efficiency

The agency met the efficiency performance measure by delivering £5 million of efficiency savings. Initiatives to secure benefits included:

- reviewing the operational structure to ensure it remains cost effective which included the agency having seen the benefits of the non-examiner voluntary redundancy scheme run in 2012-13 (£0.9 million), the clustering of test centres under one test centre manager (£1.3 million), and reduced long distance deployments of examiners through targeted recruitment (£1 million)
- continuing to seek efficiencies in all items DSA procures – the agency has worked with existing and new suppliers to deliver improved value, securing £0.6 million of savings.



As we move into 2014-15 we will be working closely with colleagues in arvato Ltd to ensure a successful migration of our transactional support services to the Government's Independent Shared Services Centre 1 (ISSC1) for our HR, Payroll, Finance and Procurement systems in 2014.

Human resources (HR)

Workforce plan

Workforce planning is fully embedded in resource planning and recruitment of examiners – highlighting both capacity and skills gaps.

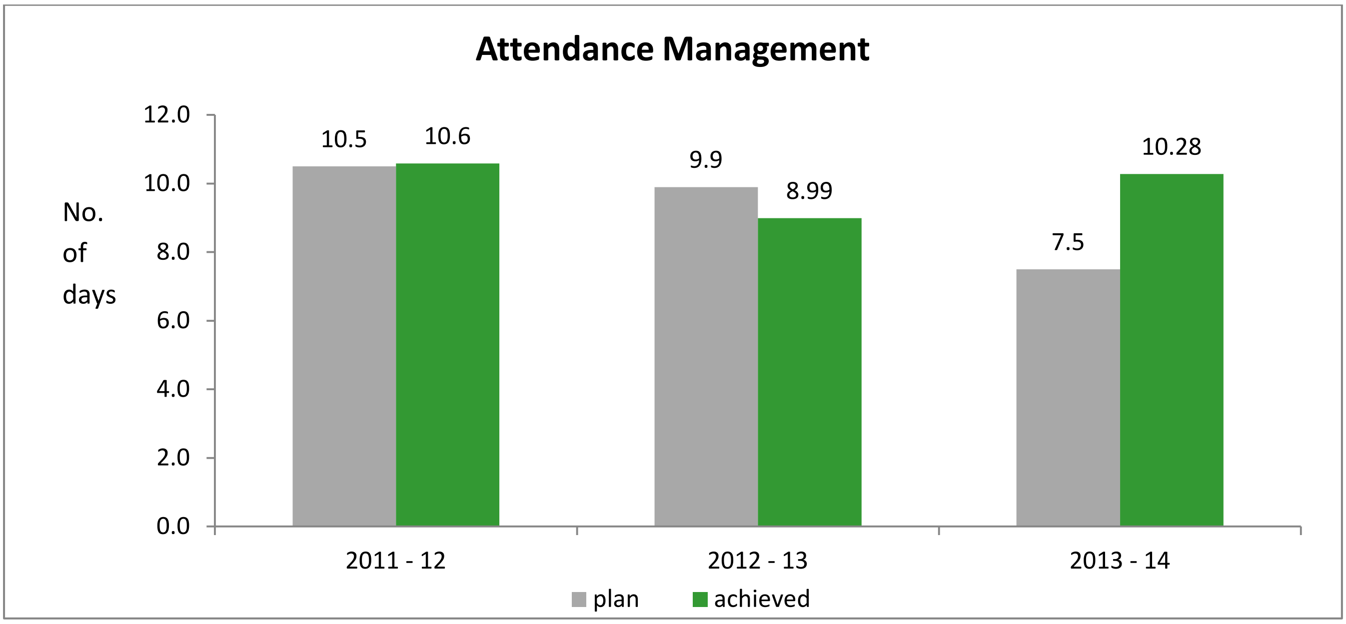
Full-time equivalents	April 2013 Plan	April 2013 Actual	March 2014 Plan	March 2014 Actual
Examiners	1,741	1,719	1,704	1,644
Administrative staff	642	548	496	476
Total	**2,383**	**2,267**	**2,200**	**2120**

Throughout the year DSA has again been focusing on getting the right people in the right place with the right skills at the right time. Examiner recruitment has been targeted at areas where there are high waiting times.

We have achieved the staff numbers through careful control of workforce allocations, and by realising efficiency savings where posts could be closed and workloads dispersed.

Staff absence

Absence levels have continued to rise in part reflecting the age profile of the workforce.



We have increased our efforts to promote health and wellbeing throughout our workforce, and are continuing to explore options for sharing best practice across DfT and the wider civil service.

Staff training and development

We have continued to deliver technical training courses to a high quality to meet operational delivery requirements. All internal staff training and development demands have also been met. Examiner professional competence periodic training is ahead of schedule at 36% at the year end. We have also managed a number of work experience placements in 2013-14.

DSA achieved re-accreditation of the Investors in People award in April 2013.

Equality and diversity

The published equality objectives continue to act as a framework for the agency to demonstrate its ongoing commitment to good equality and diversity practice and improvements in the services that we provide.

Throughout 2013 and into 2014, we continue to work with external stakeholders to learn more about the experiences of candidates with ‘additional requirements’, to identify issues and impacts relating to our service delivery and to explore opportunities for improvement and equalisation.

We have been running a ‘live trial’ of over 40 revised theory test questions, following the stakeholder review of the car theory test. It is anticipated that the results of this cohort study will be known and shared in 2014-15. The objective is to determine whether the techniques used to simplify the construction of the questions will result in an improvement in candidate comprehension.

In March 2014, we also embarked on a review of the car practical driving test. Once again, we drew on external stakeholder participation. This has prompted several issues that we are currently exploring further in order to improve the experience of booking and taking a driving test for candidates with ‘additional requirements’. It is anticipated that we will share the outcomes more widely in the autumn 2014.

Ultimately, all of this activity strives to better understand and meet the needs of our diverse candidate profile.

Health and safety (H&S)

H&S assurance is monitored through a regime of regular auditing and inspections undertaken by internal qualified H&S team members and external professionals such as Crown Fire Inspectors. Activities with significant risks are assessed, controlled and reviewed as necessary. The H&S team monitors and reports back on statutory assessments and activities completed by the total facilities management contractors. Issues identified are actioned by the managers responsible and an overview is entered into the monthly senior management's H&S report. Post incident accident investigations take place by the team following significant incidents, and the team manage the incident database, reporting of injuries, diseases and dangerous occurrences regulations (RIDDOR) incidents, and also maintain the hearing database for staff.

Members of the H&S team also help line managers and HR business partners by completing workplace ergonomic assessments and stress assessments.

Estates management

Rationalisation

In year we have ceased testing at five sites. These are:

- Cardiff Fairwater
- Forfar
- Neath LGV
- Sheffield Parkway
- Taunton LGV

Works

Throughout 2013-14 21 planned works projects were undertaken. The value of these completed projects was £892,000. These works were made up of a mixture of refurbishments, H&S improvements or repairs, redecorations and demolition. Eight of the projects included works delivering sustainable development benefits with two of them being multi-site projects; installation of loft insulation and devices to make gas central heating systems work more efficiently.

Also in the year, 234 unplanned works projects were undertaken across the estate. The total value of these works was £477,000.

Fraud and integrity

DSA's fraud and integrity team continued to tackle instances of suspected impersonation at theory and practical driving tests to reinforce our commitment to improving road safety. We work closely with our external stakeholders such as the Police, Crown Prosecution Service, courts and other government agencies, towards reducing the number of impersonations. During this year we received 561 reports of suspected impersonations, which related to 1,403 suspect theory and / or practical driving tests, some of which are still under investigation. In addition, during 2013-14, 292 individuals were arrested by the Police as a result of our action.

During the year 221 individuals received a police caution and 72 were convicted of offences in the courts. Of these 72 individuals, 59 received prison terms. We also revoked 289 driving licences.

We investigated 67 reported cases of illegal driving instruction, arresting 10 individuals. During the year 8 individuals received a police caution.

We use appropriate media channels to promote the team's work, which reinforces the message that those found guilty of these offences can expect to be punished. This has been shown through the use of our dedicated twitter feed @DVSAFraud and the ITV Television Exposure series "Who's driving on Britain's roads".

Fraud and bribery
DSA takes fraud and bribery very seriously. All cases of actual or suspected fraud or bribery are investigated promptly and disciplinary action is taken where appropriate. We will not accept any instance of fraud or bribery and we require all staff, at all times, to act honestly and with integrity and to safeguard the public resources for which they are responsible. We communicate, promote and embed an anti-fraud and bribery culture by raising staff awareness of these issues.

Development and performance of the business during the financial year
During the year DSA saw increases in both theory and car practical tests resulting in increased activity and income.

Also the agency has seen a lower than expected demand for motorcycle theory and modules 1 & 2 practical tests which is due to a larger than expected surge ahead of the introduction of the EU 3rd Directive changes in January 2013. The short term increase in motorcycle demand last year has not been sustained.

We have continued to ensure that testing and training has been conducted to appropriate quality and with consistency, undertaking supervision and monitoring on a routine basis, and investigating incidents of fraud.

Financial Review
Financial objectives
The Government Trading Funds Act 1973 lays upon the Minister responsible for each trading fund the financial objectives of:

- managing the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to the revenue account;
- achieving such further financial objectives as the Treasury may, from time to time, by minute laid before the House of Commons, indicate as having determined by the responsible Minister to be desirable of achievement.

The long term financial objective of DSA for the five-year period from 1 April 2009 to 31 March 2014 is achieving a return, averaged over the period as a whole, of at least 3.5% on the average capital employed. This target has been exceeded, achieving over 17% over the period.

As a trading fund, DSA's activities are funded through fees and charges with some additional funding for enforcement activities provided from the Single Enforcement Budget administered by DfT.

Financial review
The agency has had a strong financial performance as a result of past cost reductions and increasing activity. The agency has started to experience increasing demand and throughput. This has been particularly the case for theory tests which have increased by almost a third and increased practical tests which are up 3%. Increased demand for the theory test is mainly due to the pass rate falling and practical testing has benefited from relatively benign weather conditions over the winter season. The agency also saw high levels of Driver Certificate of Professional

Competence (Driver CPC) income which is at the peak of its cycle for bus and lorry drivers and is likely to decrease in future.

Costs in the business have risen in line with increased activity but have been well contained and conscious cost control has contributed to the positive surplus. This is as a result of past cost reductions and ongoing efficiency savings. The efficiency savings target has been met, achieving over £5.0m savings.

Financial strategy

Our long term financial strategy is to:

- generate sufficient surplus to meet the Treasury return on capital employed target over the relevant period
- generate sufficient cash to fund investment
- reduce the level of debt

Financial results

The financial results for 2013-14 show a net trading surplus (before other comprehensive income) of £16.4 million (2012-13: £5.3 million) well ahead of the planned surplus. Activity levels, particularly delivery of theory tests, were above the previous year and plan. The Statement of Comprehensive Net Income shows the surplus has increased by a further £2.0 million due to upward revaluations compared with £3.9 million downward revaluation last year.

Income from statutory services was £185.1 million, £13.0 million higher than 2012-13 and 7.5% above budget, reflecting delivery of more tests, particularly theory tests, than anticipated. The full impact of the Driver CPC scheme is being realised, with the first five-year cycle for bus and coach drivers coming to an end in September 2013. Income from other operating activities benefited from additional funding from the DfT to fund the migration of shared service centre to the new independent shared services centre 1 platform and the financial impact of Modernising the Employment Contract, which has been implemented across the DfT Group.

Expenditure continued to be tightly controlled, although expenditure increased by £6.7 million to £175.1 million as a result of the higher throughput and the implementation of the modernised employment contract. Administration and other costs continued to be rigorously controlled and were more than 5% below plan.

The higher levels of activity increased both the net operating surplus and the surplus for the year, to £25.5 million (£14.5 million in 2012-13) and £16.4 million (£5.3 million in 2012-13) respectively.

Capital expenditure of £1.5 million during the year has been funded by cash generated from the business. Loans of £12.2 million have been repaid early in the year, with further early repayment of loans made shortly after the year end of £20.6 million.

Cash balances have increased over the year to £76.9 million, following reduced levels of capital expenditure and despite additional repayment of loans. Cash is required to provide for the daily operational cash flow needs of the agency and capital expenditure. Balances also cover the customer fees taken in advance of service delivery.

DSA has been set a financial target of achieving a return on capital employed (ROCE) of 3.5% of average net assets in the five-year period to 2013-14. Since adoption of IFRS in 2009-2010, the interest payable on finance leases has been disclosed as interest costs rather than other operating charges. This has impacted on the presentation of the net operating surplus and therefore ROCE. After taking into account interest receivable, the level of ROCE achieved cumulatively is 17% after five years of the objective period.

A dividend of £1,264,000 is due to DfT for the year (2012-13: £786,000).

Social, community and environmental Issues

DSA has published its carbon management plan, which shows how we plan to drive down CO_2 equivalent emission by 25% from 2009-10 levels over five years. We are on track for achieving our five year target. For more detailed information about DSA's work in this area, and quantification of performance during the year, please see the sustainability report starting on page16.

Forward look

Our primary aim for 2014-15 is to continue to promote road safety by influencing driver and rider behaviour. We will do this through setting the standards for pre-driver education, driver trainers, educating drivers, supervising trainers and carrying out theory and practical driving/riding tests. In addition, we will ensure that it provides greater efficiency and better value for money throughout the business. We will aim to achieve this by:

- continuing our core business; delivery of driving tests, both statutory and non-statutory, delivering over 1.7 million theory tests and 1.6 million practical tests for car, motorcycle, lorry and bus drivers and instructors
- ensuring tests are of appropriate quality and delivered consistently
- improving the availability of tests
- increasing the take-up of our digital services to make booking tests easier
- ensuring we utilise our key examiner resource effectively and efficiently with utilisation of at least 80%
- making further operational efficiency savings
- delivering our financial plan

Following the merger the aims have been broadened to encompass former VOSA activities. Further information can be found in the DVSA's first business plan at:
https://www.gov.uk/government/publications/dvsa-business-plan-2014-to-2015

Sustainability report 2013-14

The sustainability report below describes the agency's performance against the Greening Government Commitments and is produced in line with HM Treasury sustainability reporting guidance. The report includes a range of environmental performance indicators and information presented for the last four years back to 2009-10 (the beginning of the Greening Government Commitments).

Overview and highlights

DSA believes that business should be conducted in a sustainable way that continuously improves environmental performance and prevents pollution. During 2013-14 we demonstrated that by maintaining our certification to ISO14001 of our environmental management system (EMS) and reducing our significant impacts on the environment. The audit of the EMS provides third party assurance that DSA has identified significant environmental impacts and has the necessary procedures and improvement plans in place to manage them. Although certification only covers the Headquarters and the Training Centre, many elements of the system extend across the organisation. For instance the policy, governance, energy and water management, communications and carbon management cover the whole DSA estate.

The table below shows DSA's performance against the Greening Government Commitment targets:

Indicator	Baseline	Target	Achievement	
Greenhouse Gas emissions ($tC0_2(e)$)	5,989	4,791	4,641	-22.6%
Number of domestic flights	1,272	1,018	601	-53%
Water use (m^3)	33,912	N/A	29,905	-12%
Water use (m^3 per FTE)	9	N/A	6	-29%
Waste arising (tonnes)	115	86	64	-44%
Paper (A4 reams)	13,638	N/A	8,303	-39%

Greenhouse gas emissions

Greening Government Commitments – Cut greenhouse gas emissions by 25% from the whole estate and UK business related transport in $CO_2(e)$ against 2009-10 by 2014-15.

The reduction achieved during 2013-14 against the baseline was 22.6%.

Scope 1 (gas, LPG and owned fleet vehicles)

During 2013-14 we used data supplied by gas automatic meter readers to target energy waste across the estate and ensured that sites have the appropriate controls to improve thermal comfort and prevent out of hours heating. Tadpole devices (which remove air from heating systems to increase efficiency) were installed at 98 sites and 20 sites had loft insulation fitted.

Refrigerant gases have a much higher global warming potential than carbon and, in some instances, also have ozone depleting qualities. Regulations are in place to limit and control the use of refrigerant gases and DSA has a responsibility to ensure that it is legally compliant. Procedures are in place to comply with regulations and limit the release of refrigerant gases.

DSA now leases a fleet of 54 low carbon cars. This means that our high mileage mobile staff now have dedicated vehicles averaging 111gCO2/km. This fleet has grown through 2013-14 and is expected to continue to grow over 2014-15, as staff are identified, and contribute further to decarbonising essential travel.

Scope 2 (electricity – generation)

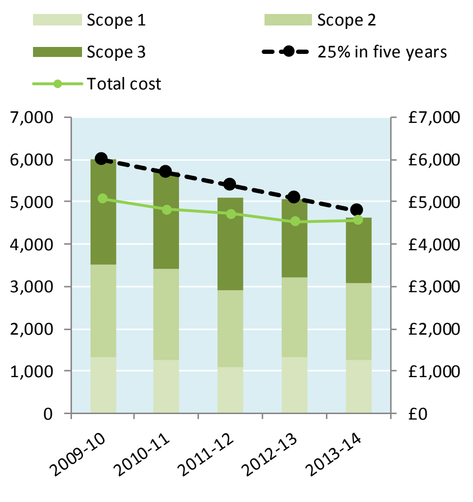
Electricity (combined scope 2 and scope 3) is the single largest source of greenhouse gas emissions for the agency. It accounts for approximately 40% of our carbon emissions and is therefore considered as a significant aspect. The three large administrative sites are accountable for approximately 30% of electricity consumption for the estate and have been targeted with minor works and improvements to reduce consumption. It is planned that over 2014-15 works will be completed to improve the efficiency of the administrative sites as well as the high consuming poorly performing sites across the wider estate.

Scope 3 (air, rail, hire cars, greyfleet and electricity – transmission and distribution)

2013-14 has seen the significant reduction in carbon from travel. Projects and process changes lead to further reductions and the way we deploy examiners to match test demand now balances cost, carbon emission and waiting times, and is much more effective. In addition, targeted recruitment at high wait test centres, and cross training existing examiners in different categories of test, has provided the agency with much greater flexibility. Not only has this lead to financial savings and lower emissions in 2013-14, but there is evidence that emissions are starting to decouple from test demand. Continuation of this work will help to ensure that if test demand rises in the future, cost and emissions should not mirror the same trend.

GREENHOUSE GAS EMISSIONS		2009-10	2010-11	2011-12	2012-13	2013-14
Non financial indictors (tCo2e)	Natural gas (Scope 1)	919	840	651	831	728
	LPG (Scope 1)	34	34	36	45	37
	Fleet vehicles (Scope 1)	374	388	418	441	496
	Electricity generation (Scope 2)	2,192	2,166	1,822	1,909	1,812
	Electricity transmission and distribution (Scope 3)	174	174	156	151	155
	Greyfleet (Scope 3)	1,703	1,648	1,569	1,297	1,116
	Hire car and taxi (Scope 3)	423	280	315	303	190
	Flights (Scope 3)	107	121	72	39	50
	Rail (Scope 3)	63	53	45	38	38
	Total emissions	5,989	5,704	5,084	5,054	4,622
Target (tCo2e)	25% in five years	5,989	5,690	5,390	5,091	4,791
	Utilities	830,262	682,171	657,449	718,494	687,839
	Business travel	4,235,195	4,131,486	4,069,484	3,810,999	3,886,134
	Total cost	5,065,457	4,813,657	4,726,933	4,529,493	4,573,973

Total Co2(e) Emissions (tonnes) against cost (£000's)



COMMENTS ON SCOPE

Cost for business travel includes staff travel time, maintenance and other charges incurred in addition to fuel. Subsistence costs have been excluded. Carbon Reduction Commitment (CRC) credits were only required from 2011-12.

Waste and recycling

Greening Government Commitments – Reduce waste generated by 25% against 2009-10 by 2014-15.

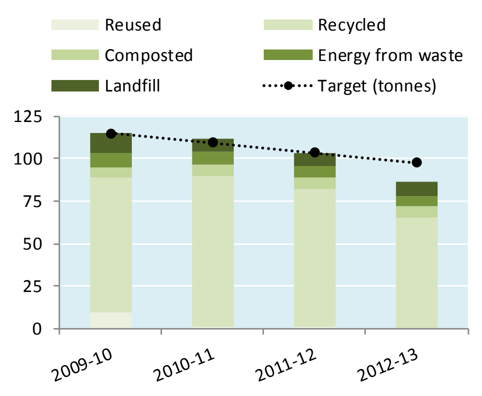
So far we have achieved a 44% reduction which is ahead of target.

Waste is monitored at all our large administrative sites. We have not been able to accurately monitor waste levels at the test centres at present. However, improvements in the waste industry such as the increasing use of vehicles with scales should allow us to widen the scope in future years.

Waste levels have reached the lowest point since our records began showing a huge 18% drop from last year. Recycling rates have dropped slightly as a result, but remain at around 90%. Some of the reduction can be attributed to a lower head count; however, the magnitude of the drop far outstrips this.

WASTE ARISING		2009-10	2010-11	2011-12	2012-13	2013-14
Non financial indictors (tonnes)	Landfill	11.5	7.4	7.5	8.3	6.8
	Energy from waste	8.5	7.8	7.0	6.2	6.7
	Composted	5.8	6.2	6.0	6.3	4.0
	Recycled	79.3	88.6	81.4	65.2	46.3
	Reused	9.8	1.2	1.1	0.4	0.0
	Total waste arising	114.9	111.2	102.9	86.4	63.9
Target (tonnes)	25% in five years	114.9	109.1	103.4	97.6	91.9

Total Waste (tonnes)



COMMENTS ON SCOPE

The figures above cover office waste (paper with some plastics, metals and food) at DSA's large administrative sites and all waste electronic equipment disposals. The vast majority of this is non hazardous waste. It is not currently possible to report on the driving test centre estate as estimation would have to be used to an extent that any results would be unreliable. However, we continue to investigate methods to collect and provide robust data. Figures do not cover waste from one off disposals such as waste generated by refurbishments.

ACHEIVEMENTS DURING 2013-14

We are transitioning to a new shared electronic system which allows staff to more readily share documents. This was carried out in combination with the targeting of members of staff who print high volumes.

Finite resources – Water

Greening Government Commitments – Reduce water consumption from the office and non-office estate and report on office water use against best practice benchmarks:

a) $\geq 6m^3$ water consumption per FTE – poor practice
b) $4m^3$ to $6m^3$ per FTE – good practice
c) $\leq 4m^3$ per FTE – best practice

The water data covers 4,960 full time equivalents including an estimation of visitors. This places 23% of our sites in the 'best practice' category, 37% in the 'good practice' category and 40% in the 'poor practice' category.

In 2013-14 we saw a 12% reduction in our headline figure from improved water management.

FINITE RESOURCES - WATER		2009-10	2010-11	2011-12	2012-13	2013-14
Non financial indictors (m3)	Water use	33,845	32,260	32,264	28,710	29,905
Financial indications (£)	Water costs	173,034	171,454	182,464	184,646	214,687

Total Water Use (m3 and £000's)

COMMENTS ON SCOPE

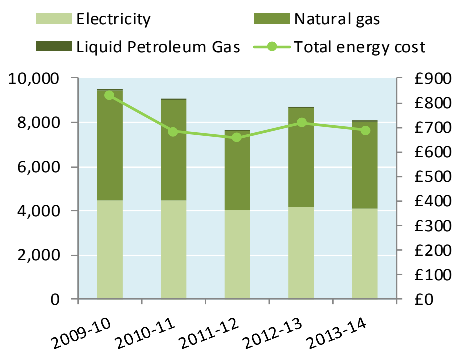
The figures include the 181 water accounts we monitor. Since the baseline this has increased by 28 as reporting has improved. This indicates that we have actually made a greater reduction than shown here. The financial and non-financial data was previously based on the same invoice database; however, a change in the source of financial data used this year is responsible for the sharp increase in associated expenditure.

Finite resources – Energy (fossil fuels)

Although there are no direct government targets for the reduction of energy use (kWh), it is responsible for approximately 60% of the agency's carbon footprint and considered a significant environmental aspect. In 2013-14 we saw a 14.9% reduction in fossil fuel consumption compared to 2009-10 baseline; this was partly contributed to by energy efficiency improvements made across the estate and favourable weather experienced during the financial year.

FINITE RESOURCE - ENERGY		2009-10	2010-11	2011-12	2012-13	2013-14
Non financial indictors (KWh)	Electricity	4,438,217	4,462,412	4,029,624	4,149,118	4,068,294
	Natural gas	4,997,571	4,537,419	3,547,597	4,486,030	3,956,786
	Liquid Petroleum Gas	22,681	22,681	23,812	29,477	25,561
Financial indicators (£)	Total energy cost	830,262	682,171	657,449	718,494	687,839

Total KWhs of Energy (KWh 000's and £000's)



COMMENTS ON SCOPE

The figures include all gas and electricity consumption where DSA is responsible for the accounts as well as any site where we have an LPG bulk supply. For the period covered electricity supplies were derived from 100 per cent renewable sources. All mandatory half hourly supply points have been using 100 per cent renewable energy since at least 2011-12. The financial and non-financial data is based on the same invoice database. Costs dropped significantly between 2009 and 2011 due to a reduction in KWhs and the switch to cheaper tariffs through the Government Procurement Service energy frameworks. LPG has been monitored from 2010-11 and therefore the baseline year was estimated using the nearest data.

Biodiversity

DSA has a duty and is committed to conserving biodiversity across its estate. We recognise the value ecosystem services provide and aim to enhance these wherever possible. DSA is achieving this through having a 'conservation area' at its training centre in Cardington and is planning to support Defra by implementing recommendations from the national pollinator strategy.

Sustainable Procurement

As a public sector body, the procurement of goods and services is achieved through the use of Crown Commercial Service frameworks and direct competitive tendering wherever possible. Within this process, suppliers are invited to provide relevant information in relation to the particular requirement in order to satisfy that there is the necessary financial and technical capability to deliver what is required. The information provided is used to evaluate the sustainability of the product or service and the whole life costing to source the supplier that offers the best overall solution. To strengthen this process the agency has methods in place to ensure that goods and services are procured to Government Buying Standards (GBS) and actively engages with contractors to ensure any goods purchased on our behalf are GBS compliant.

Forward Plans

The most significant development for DSA in 2013-14 is the merger that has taken place with VOSA to form DVSA. Work is ongoing within the two former agencies to make testing more flexible and convenient for customers; this work will continue and we will monitor the environmental aspects of developments to ensure that we take all feasible opportunities to make it beneficial for the customer while limiting the financial cost and environmental impact.

Forward look

The following table summarises the priorities of DVSA for 2014-15 for both ex-VOSA and ex-DSA.

2014-15 DVSA Performance Measures agreed with our Minister

Category	Measure	2014-15 Objective
Making our services more convenient and easier to use		
Reform	As a direct result of the merger, DVSA will rationalise its estate by consolidating driving tests and lorry, bus and coach vehicle testing at 20 sites while minimising the impact on customers, subject to Ministerial approval	By 31 March 2015
	Take forward the Government Digital Strategy: • Maintaining or improving the take-up of digital services for driver testing and training • Introducing a new digital service to enable commercial operators to apply to Traffic Commissioners for operator licences	90% By 31 March 2015
Operational	Honour DVSA-confirmed reservations at Authorised Testing Facilities	95%
	Conduct 85% of lorry, bus and coach annual tests at non-DVSA sites	By 31 March 2015
	Offer candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date	95% of candidates
	Keep theory test appointments	99.5% of appointments
	Annual national average waiting time for car practical tests	No more than 6 weeks
	Keep practical test appointments which are in place three days prior to the driving test	98% of appointments
	Prepare for the implementation of a new MOT system by completing the initial build of this system, and develop a full implementation plan involving users fully, which includes conducting and evaluating a 'Beta' pilot with business users	By 31 March 2015
	Demonstrate the effectiveness of our targeting of non-compliant lorry operators and drivers by achieving an overall prohibition rate at targeted checks that is higher than the rate found through random compliance checks	At least 12 percentage points higher
	Consult on an outcome based measure for compliance of the fleet	By December 2014
Putting the customer at the heart of everything we do		
	Retain Customer Service Excellence accreditation	By 31 March 2015

Category	Measure	2014-15 Objective
Driving down costs to the motorist		
Finance and efficiency	**Agency finance**[1] • Deliver financial performance for former DSA in line with published plans • Deliver financial performance for former VOSA in line with published plans • Deliver efficiency savings for former DSA • Deliver efficiency savings for former VOSA	By 31 March 2015 By 31 March 2015 £8.1m £2.1m
	Workforce • FTE staff numbers for former DSA as at 31 March 2015 will be no more than • FTE staff numbers for former VOSA as at 31 March 2015 will be no more than • Ensure the average number of working days lost due to sickness absence does not exceed	2,200 2,449 7 days
	Protecting the environment Cut carbon emissions from agency activities by 31 March 2015 when compared with a 2009-10 baseline	By 25%
Meeting all of our corporate responsibilities		
Customer Service	**Customer complaints** Reduce the number of complaints that are not resolved after the first response as compared with 2013-14 objective	10% decrease at 31 March 2015
	Prompt payment Payment of invoices within 5 working days	80%
	Freedom Of Information Provide response within 20 working days	93%
	Parliamentary Questions Provide a response within due date	100%
	Member of Parliament correspondence Provide a response within 7 working days	100%
	Official correspondence Provide a response within 20 working days	80%

A. Peoples
Chief Executive and Accounting Officer
11 June 2014

[1] DVSA will continue to have two Trading Funds in the short term with two sets of financial targets and two sets of accounts. It is planned to establish a single Trading Fund under a Trading Fund Order with effect from April 2015.

Directors' Report

This directors' report is produced to comply with the requirements of the Companies Act 2006, adjusted for the public sector context as required by the HM Treasury Financial Reporting Manual 2013-14. It should be read in conjunction with the governance statement, the remuneration report and the strategic report.

Accounts Direction

The financial statements on pages 45 to 69 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) 02/10].

Auditor

The Comptroller and Auditor General (C&AG), as head of the National Audit Office, is the appointed auditor for DSA. The audit work for the 2013-14 accounts cost £70,000 (2012-13: £70,000). The NAO did not receive any remuneration for non-audit related work.

As far as the Accounting Officer is aware there is no relevant audit information the auditor has not been provided; and that the Accounting Officer has taken all reasonable steps to provide relevant audit information to the auditor.

Asset values

As assets are revalued annually in line with the accounting policy, the directors consider there is no significant difference between the market value and carrying value of assets in the accounts.

Charitable donations

The agency made no charitable donations in the year.

Political donations and expenditure

As a government organisation, the agency acts for the elected government of the day and is non-political. It made no political expenditure or donations.

Payment of creditors' policy

DSA is committed to both the CBI code on creditors and BIS Better Payment Practice. The agency policy is that all bills should be paid in accordance with contractual conditions. Where no conditions exist, payment will be made within 30 working days of the receipt of goods or services, or the presentation of a valid invoice, whichever is the later. DSA achieved payment in accordance with this policy in 100% of transactions for the year ended 31 March 2014 (2012-13: 100%). The performance is measured in accordance with HM Treasury guidelines.

The central government measure of paying 80% of all undisputed transactions within five days has been exceeded. DSA achieved payment in accordance with this policy in 99.5% of transactions for the year (2012-13: 99%).

Pensions

Information regarding pensions is given in the remuneration report on pages 25-31 and described in note 3 to the financial statements. The accounting policy note also refers to the agency's treatment of pensions.

Statutory framework

The statutory framework within which DSA conducts driving tests is Part III of the Road Traffic Act 1998 [as amended] together with the Motor Vehicles (Driving Licences) Regulations 1999 (SI 1999/No 2864) [as amended].

DSA responsibilities also include:

- the operation and management of the register of Approved Driving Instructors – Part V of the Road Traffic Act 1988, the Motor Cars (Driving Instruction) Regulations 2005 (SI 2005/No 1902) (as amended), the Driving Instruction (Suspension and Exemption Powers) Act 2009 and the Driving Instruction (Compensation Scheme) Regulations 2012 (SI 2012/No 1548)
- the approval and authorisation of Approved Training Bodies for delivery of compulsory training courses for learner motorcyclists – Part III of the Road Traffic Act 1998 [as amended] and the Motor Vehicles (Driving Licences) Regulations 1999 (SI 1999/No 2864) [as amended]
- the approval and authorisation of non-DSA driving examiners – Part III of the Road Traffic Act 1988 and the Motor Vehicles (Driving Licences) Regulations 1999 (SI 1999/No 2864) [as amended]
- the delivery of Initial Qualification tests for lorry and bus drivers to gain their Driver Certificate of Professional Competence (Driver CPC) – The Vehicle Drivers (Certificates of Professional Competence) Regulations 2007 (SI 2007/No 605) (as amended)
- the approval and authorisation of training bodies and of periodic training courses provided by them for delivery to drivers of lorry and bus to maintain their Driver CPC – The Vehicle Drivers (Certificates of Professional Competence) Regulations 2007 (SI 2007/No 605) (as amended)
- dangerous goods – The Carriage of Dangerous Goods and Use of Transportable Pressure Equipment Regulations 2009 (SI 2009/No 1348) (as amended)
- oversight of the Drink Drive Rehabilitation Scheme – S34-35 of the Road Traffic Offenders Act 1988 and the Rehabilitation Courses (Relevant Drink Offences) Regulations 2012 (SI 2012/No 2939)
- the introduction and implementation of parts of the 3rd European Directive on Driving Licences (Directive 2006/126/EC) that affect DSA

Directorships

Directors are required to disclose any other business interests in the register of interests that may conflict with their responsibilities. No director has declared any business interest that may conflict with their role.

Cost allocation

The agency produces information in note 2 to the accounts on the cost of its activities for fees and charges purposes using Treasury Guidance.

Personal data related incidents

There was one low level breach involving an individual's records which was reported to the Information Commissioner's Office.

Sickness absence data

The agency maintains records of sickness absence in line with cabinet office definitions. Further information on sickness absence is reported in the performance summary on page 4.

Policy on employment of disabled persons

DSA, as part of the civil service, is an equal opportunity employer. This means, inter alia,
(a) giving full and fair consideration to applications for employment by the agency made by disabled persons, having regard to their particular aptitudes and abilities;
(b) continuing the employment of, and for arranging appropriate training for, employees of the agency who have become disabled persons during the period when they were employed by the agency, and;

(c) providing for the training, career development and promotion of disabled persons employed by the agency.

Employee involvement

Action has been taken during the financial year to introduce, maintain or develop arrangements aimed at:

(a) providing employees systematically with information on matters of concern to them as an employee through regular communication

(b) consulting employees or their trade union representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests through regular consultation meetings with Trade Unions

(c) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the agency through providing information on business performance.

A. Peoples
Chief Executive and Accounting Officer
11 June 2014

Remuneration Report

Remuneration policy

The agency has the authority to determine the terms and conditions relating to the remuneration (excluding pensions) of their own staff below Senior Civil Service (SCS) grades and the payment of allowances to all staff. In practice, the agency has moved to a DfT harmonised model and has adopted the Modernised Employment Contract (MEC) as agreed between the trade unions, DfT and HM Treasury.

The remuneration of SCS is outside the scope of the agency's authority and 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.gov.uk/government/organisations/office-of-manpower-economics

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.
Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Remuneration (including salary, benefits in kind and pension entitlements)

Chief Executive Officer, Rosemary Thew retired from the organisation at 30 June 2013. From 1 September 2013 Alastair Peoples, Andrew White, Paul Satoor, Kathy Gillatt, Nick Carter, Paul Coombs, Paul Smith and Jane May formed the Transitional Board that jointly managed VOSA and DSA. Alastair Peoples, Andrew White, Paul Satoor, Paul Coombs, Paul Smith and Jane May served as directors for VOSA during the year, prior to the formation of the Transitional Board. Acting directors Lesley Young and Sarah Maddock stepped down from their directorships in September but remain with the organisation. The figures in the following tables represent their total remuneration from both organisations. The costs of the Transitional Board were shared equally between the two agencies. No compensations were paid to individuals leaving the board.

The following sections provide details of the remuneration and pension interests of the directors of the agency, and have been audited. There were no Benefits in Kind received by any directors during the year.

Directors	Salary £000		Bonus £000		Pension benefits [a] £000		Total £000	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Mr Alastair Peoples Chief Executive (from 01/07/13)	80-85 (110-115 FYE)	n/a	- [d]	n/a	20-25 (30-35 FYE)	n/a	105-110 (140-145 FYE)	n/a
Mr Andrew White Director (from 01/09/13)	60-65 (105-110 FYE)	n/a	-	n/a	25-30 (40-45 FYE)	n/a	85-90 (145-150 FYE)	n/a
Mr Paul Satoor Director (from 01/09/13)	50-55 (90-95 FYE)	n/a	-	n/a	0-(5) (0-(5) FYE)	n/a	50-55 (85-90 FYE)	n/a
Mr Nick Carter Director	80-85 [b]	85-90 [c]	-	-	0-5	5-10	85-90	90-95
Mr Paul Coombs Director (from 01/09/13)	45-50 (80-85 FYE)	n/a	-	n/a	10-15 (20-25 FYE)	n/a	60-65 (100-105 FYE)	n/a
Mrs Kathy Gillatt Director	75-80	75-80	-	-	5-10	10-15	85-90	85-90
Ms Rosemary Thew Chief Executive (up to 30/06/13)	25-30 (105-110 FYE)	105-110	-	-	(5)-(10) ((35)-(40) FYE)	(5)-(10)	15-20 (65-70 FYE)	100-105
Mrs Lesley Young Acting Director and Chief Driving Examiner (up to 30/09/13)	30-35 (60-65 FYE)	60-65	-	0-5	10-15 (25-30 FYE)	25-30	40-45 (85-90 FYE)	90-95
Mrs Sarah Maddock Acting Director (between 22/10/12 and 30/09/13)	25-30 (55-60 FYE)	20-25 (55-60 FYE)	-	0-5	25-30 (50-55 FYE)	15-20 (40-45 FYE)	50-55 (105-110 FYE)	40-45 (100-105 FYE)

Directors	Salary £000		Bonus £000		Pension benefits [a] £000		Total £000	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Ms Jane Ide Director (up to 18/10/12)	n/a	30-35 (60-65 FYE)	n/a	0-5	n/a	20-25 (35-40 FYE)	n/a	50-55 (95-100 FYE)
Mr Richard Read Non-Executive Director (up to 31/10/13)	10-15 (15-20 FYE [e])	10-15	n/a	n/a	n/a	n/a	10-15 (15-20 FYE)	10-15
Mr William Price Non-Executive Director (up to 31/10/13)	5-10 (10-15 FYE [e])	15-20	n/a	n/a	n/a	n/a	5-10 (10-15 FYE)	15-20
Mrs Jane May Non-Executive Director (from 01/10/13)	10-15 (20-25 FYE)	n/a	n/a	n/a	n/a	n/a	10-15 (20-25 FYE)	n/a
Mr Paul Smith Non-Executive Director (from 01/10/13)	5-10 (15-20 FYE)	n/a	n/a	n/a	n/a	n/a	5-10 (15-20 FYE)	n/a

FYE – Full Year Equivalent

[a] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.
[b] Includes £6,632 in respect of salaried travel and subsistence payments
[c]Includes £12,204 in respect of salaried travel and subsistence payments
[d] Bonus payments made in 2013-14 were excluded as this was prior to merging with DSA
[e] The FYE is based on time apportionment of salary paid however non-executive directors pay varies, dependent upon requirement, therefore the FYE may not be representative.

Salary
Salary includes gross salary, overtime, London allowances and any other allowance that is subject to UK taxation, including the salaried travel and subsistence payments noted above. Information on gross pay and numbers of staff are shown in the financial statements in note 3.

Bonuses
Individual bonuses for SCS graded directors are based on performance levels attained and are made as part of the appraisal process. Directors, other than SCS, previously participated in a Group Incentive Scheme bonus, however no scheme was approved for 2013-14 or 2012-13. The bonus payments in 2012-13 relate to the 2011-12 scheme.

Pay multiples (Audited)

	2013-14	2012-13
Full Time Equivalent Band of the Highest Paid Director / £000	110-115	105-110
Median Total Remuneration / £	26,151	24,687
Ratio of highest paid to median	4.3	4.4

The banded remuneration of the highest paid director in DSA in the financial year 2013-14 was £110k-£115k (2012-13 £105k-£110k). This was 4.3 times (2012-13 4.4 times) the median remuneration of the workforce, which was £26,151 (2012-13 £24,687).

In 2013-14, 0 (2012-13, 0) employee received remuneration in excess of the highest-paid director. Remuneration ranged from £1,000 to £105k-£110k (2012-13, £1,000 to £105k-£110k).

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

The median total remuneration for 2013-14 is derived from the annualised payments to all staff made in March and adjusted for back pay from salary increases to prevent distortion. Part time employees' payments are adjusted to a full time basis.

Pension benefits (Audited)

Director	Accrued pension at age 60 as at 31/3/14 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/3/14 £000	CETV at 31/3/13 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Mr Alastair Peoples [a] Chief Executive (from 01/07/13)	45-50 plus 135-140 lump sum	0-2.5 plus 2.5 -5 lump sum	994	906	30	-
Mr Andrew White[a] Director (from 01/09/13)	15-20 plus 0-5 lump sum	2.5-5 plus 0-2.5 lump sum	164	131	18	-
Mr Paul Satoor [a] Director (from 01/09/13)	0-5 plus 0-5 lump sum	0-2.5 plus 0-2.5 lump sum	42	40	(6)	-

Director	Accrued pension at age 60 as at 31/3/14 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31/3/14 £000	CETV at 31/3/13 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Mrs Kathy Gillatt Director	15-20 plus 55-60 lump sum	0-2.5 plus 0-2.5 lump sum	355	325	6	-
Mr Nick Carter Director	25-30 plus 75-80 lump sum	0-2.5 plus 0-2.5 lump sum	513	478	3	-
Mr Paul Coombs [a] Director (from 01/09/13)	6-10 plus 0-5 lump sum	0-2.5 plus 0-2.5 lump sum	100	75	14	-
Ms Rosemary Thew Chief Executive (up to 30/06/13)	55-60 plus 175-180 lump sum	0-(2.5) plus 0-(2.5) lump sum	1,290	1,288	(9)	-
Mrs Lesley Young Chief Driving Examiner (up to 30/09/13)	20-25 plus 65-70 lump sum	0-2.5 plus 0-2.5 lump sum	431	401	11	-
Mrs Sarah Maddock Acting Director (between 22/10/12 and 30/09/13)	15-20 plus 55-60 lump sum	0-2.5 plus 2.5-5 lump sum	308	286	18	-

[a] Pension benefit gained through VOSA

Pension schemes

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

Employee contributions are salary related based on the following contribution rates:

Annual Pensionable Earnings (full-time equivalent basis)	**classic** scheme		**premium**, **classic plus** and **nuvos**	
	Contribution rate % 2012-13	Contribution rate % 2013-14	Contribution rate % 2012-13	Contribution rate % 2013-14
Up to £15,000	1.50	1.50	3.50	3.50
£15,001 - £21,000	2.10	2.70	4.10	4.70
£21,001 - £30,000	2.70	3.88	4.70	5.88
£30,001 - £50,000	3.10	4.67	5.10	6.67
£50,001 - £60,000	3.50	5.46	5.50	7.46
Over £60,000	3.90	6.25	5.90	8.25

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

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

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

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

Cash equivalent transfer values (CETV)

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

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

Real increase in CETV

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

Compensation for loss of office

No director received compensation payment (2012-13 nil).

A. Peoples
Chief Executive and Accounting Officer
11 June 2014

Statement of Accounting Officer’s Responsibilities

Business Accounts

Under Section 4(6) of the Government Trading funds Act 1973, as amended, the HM Treasury has directed the Driving Standards Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the agency’s state of affairs as at 31 March 2014 and of its income and expenditure, changes in taxpayers’ equity and cash flows of the trading fund for the year then ended.

In preparing the accounts, the agency is required to:

- observe the accounts direction issued by the HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis in accordance with International Financial Reporting Standards
- make judgements and estimates on a reasonable basis
- state whether applicable Accounting Standards have been followed and disclose and explain any material departures in the accounts and
- make an assessment that the Driving Standards Agency is a going concern and will continue to be in operation throughout the next year; and ensure that this has been appropriately disclosed in the financial statements.

The Treasury has appointed the Chief Executive of the Driving Standards Agency as the Accounting Officer of the agency. The relevant responsibilities of an Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the HM Treasury’s ‘Managing Public Money’.

A. Peoples
Chief Executive and Accounting Officer
11 June 2014

Governance Statement

Accounting Officer Introduction

To allow me to discharge my role as Accounting Officer for the DSA Trading Fund Annual Report and Accounts this Governance Statement depicts the approach taken to deliver effective corporate governance for DSA in 2013-14. In June 2013 it was announced as part of the Motoring Services Strategy that DSA and Vehicle and Operator Services Agency (VOSA) would merge into one agency. I have made a complementary statement in VOSA's Annual Report & Accounts to reflect the fact that since October 2013 I have been Accounting Officer and Chief Executive for both. In readiness for the new agency (which was formally launched on 2 April 2014) I took the opportunity to ensure the transitional governance structure was fit for purpose for the future needs of the new Driver & Vehicle Standards Agency, whilst retaining appropriate control to allow clear line of sight for my responsibilities for each Trading Fund and their Accounts.

I can confirm that whilst the two agencies have been working towards merging into a single entity, they have managed their finances as separate legally constituted trading funds. We have maintained separate accounting systems over the year and will continue to do so until a new trading fund order is established in April 2015. In order to ensure the regularity of payments between the two organisations, joint costs have been shared equally e.g. costs of merger or costs of the Transitional Board. Such joint costs have been passed on at an arm's-length basis with no management charges or overheads attributable. I also established a Transitional Directing Board, the membership of which brought together knowledge and experience from both DSA and VOSA to lead the agencies during the preparation stage of the merger. Membership of committees and sub-boards was updated to allocate executive leads and facilitate cross-agency working, whilst maintaining transparent governance for the two trading funds. Future reference to boards in this document reflects their function both as a singular DSA and, since October 2013, a dual DVSA Board.

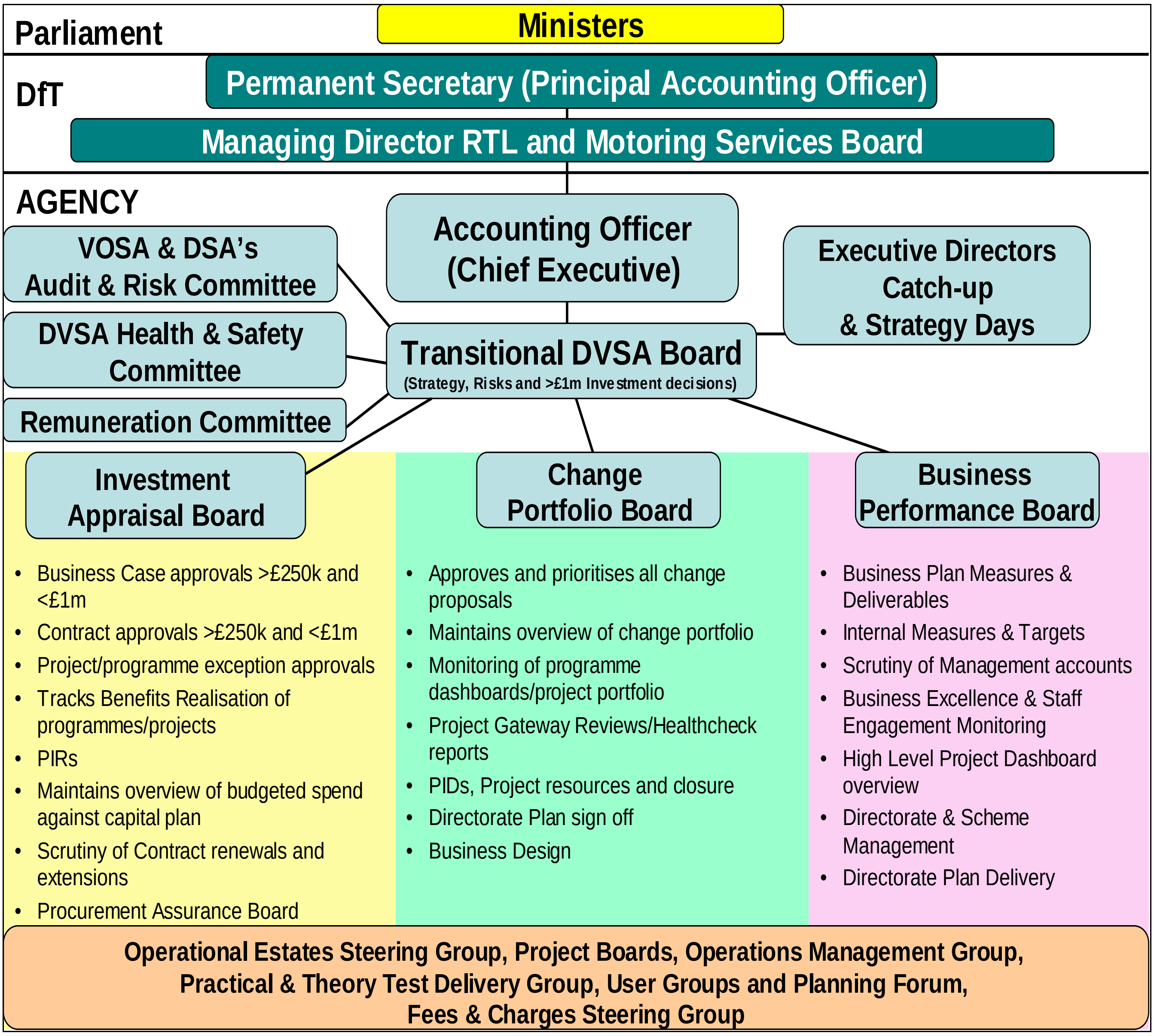
The Permanent Secretary of the Department for Transport (DfT) appointed me as Chief Executive for DSA, and HM Treasury appointed me Accounting Officer for the DSA Trading Fund. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of DSA's policies, aims and objectives, whilst safeguarding the public funds and agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the HMT Code of good practice for Corporate Governance in Central Government Departments and Managing Public Money.

Corporate governance is the way in which organisations are directed and controlled, and good governance is vital to effective financial and risk management. HM Treasury's 'Managing Public Money' and 'Financial Reporting Manual' require that I provide a statement on how I have discharged my responsibility to manage and control DSA's resources during the year. I have provided details below of how DSA's system of corporate governance has operated during 2013-14, including any areas where the system has not operated in line with the HMT Code of good practice for Corporate Governance in Central Government Departments.

Governance Framework

As an executive agency of DfT, DSA follows the arrangements as set out in the Department's 2011 Framework document. The DSA annual business plan was submitted to the Secretary of State for endorsement of the key performance measures at the beginning of the year and regular reporting of progress against these has taken place to the Managing Director of Motoring Services. The agency's framework document identifies how its corporate leadership is organised, how decisions are made, how finances are controlled and how performance and risk are monitored and managed.

<u>DVSA Corporate Governance Framework</u> (Shows transitional structure as at April 2014).



The Board (DSA Directing & DVSA Transitional)

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

I have explained above that I took the opportunity to review the board structure and performance at the initial transition stage of the VOSA/DSA merger. The amalgamation of the two previous agency board structures into a single Transitional Board has meant that an annual assessment of all 3 boards performance was not undertaken. However, an assessment is taken as part of every board and when the permenant board is fully constituted, I will ensure its terms of reference include the annual board assessment requirement.

Papers produced for the board are owned by a presenting director and this role includes ensuring information and data contained are robust and fit for purpose. Also in year I have introduced additional quality criteria and checks on any analytical analysis to support this director information assurance, in line with the Macpherson Report.

DSA attendee numbers from April 2013 until September 2013 (no Board in August)

Board member	Title	No of meetings attended
Rosemary Thew	Chief Executive	5/5
Nick Carter	Director of Operations	5/5
Kathy Gillatt	Director of Finance and Corporate Services	5/5
Lesley Young	Chief Driving Examiner	5/5
Sarah Maddock (deputising)	Director of Communications	4/5

Below are the DVSA Transitional Board attendee numbers from October 2013 to March 2014

Board member	Title	No of meetings attended
Alastair Peoples	Chief Executive	5/6
Nick Carter	Director of Operations	1/6
Paul Coombs	Director of Finance	6/6
Andrew White	Chief Information Officer	6/6
Paul Satoor	Director of Organisational Development	6/6
Kathy Gillatt	Director of Corporate Services	3/6
Paul Smith	Non-executive Director	6/6
Jane May	Non-executive Director	5/6

Audit and Risk Committee (A&RC)

The Transitional Board initially maintained separate DSA and VOSA A&RCs until January 2014. The first combined committee met in Febuary, although it still deals with items that support either Trading Fund seperately. As a committee of the Transitional Board, the A&RC advises and supports the Board responsibilities for risk, control and governance. The A&RCs review the comprehensiveness of assurances in place to meet the Transitional Board's needs for each Trading Fund and reviews the reliability and integrity of these assurances, providing advice where applicable. This includes reviewing and advising on the implementation of accounting principles in conjunction with external auditors. The A&RC membership is exclusively non-executive, consisting of Paul Smith (Board NED & Chair), Jane May (Board NED), Gareth Williams (Independent), and Graham Pendlebury (DfT nomimee).

Renumeration Committee

The Remuneration Committee consider the remuneration packages for staff and particularly bonus levels. It may also make recommendations to the board on the agency's wider contingent reward policy. It meets annually and includes both board NEDs with myself as CEO.

Health and Safety Committee (HSC)

The HSC continues as a Committee of the Board, and in accordance with HSE guidance to advise and support the DSA and Transitional Board(s) on matters of health and safety policy, structure and communication, reviewing these against legal obligations. The first merged meeting was held in January 2014, and utilises trade union as staff side representation and a NED – Paul Smith. It is chaired by a member of the Transitional Board.

Investment and Change Board (ICB)

ICB has been delegated authority by the Transitional Board to appraise and approve business cases for investment contract approvals and other significant spending providing assurance to the Transitional Board that sound decisions are made in relation to the investment of public funds. DSA & VOSA ICB has authority to approve investment ≥ £250,000 and <£1,000,000 and to endorse investment ≥£1,000,000 for Transitional Board approval. This applies to business as usual, capital, project or programme related investments and contracts.

The ICB has also been delegated authority by the Transitional Board to govern the development of change proposals to deliver DSA and VOSAs' blueprint and business plans. All proposals are required to be considered by the ICB ahead of work commencing on a business case and/or submission to the ICB/Transitional Board.

It is chaired by a member of the Transitional Board and has an open invitation for NED attendance within its terms of reference. Jane May has regularly attended its meetings.

Business Performance Board (BPB)

The DSA and VOSA BPB have been delegated authority by the Transitional Board to ensure operational, scheme management and all project and programme activity, delivering DSA and VOSAs' business plans and ensuring that performance targets are being met. The BPB's also monitor benefit realisation for projects approved by the ICB or DVSA board or DfT boards. There is an open invitation for board NEDs to attend. The BPBs remained separate whilst there were separate Business Plans for DSA and VOSA, and for next financial year (2014-15)I have produced a single plan for DVSA as a merged agency.

The Governance Culture

The agency recognises that the culture we work in impacts on the organisation's success in terms of good governance. As Civil Servants, staff are bound by the Civil Service Code and adherence to the Nolan Seven Principles of Public Life.

Each board evaluates the meeting's structure, content and presentation to facilitate informed decision making. DSA and DVSA executive directors considered the agency's ongoing business needs to establish that the experience of the non-executive directors continued to provide the independent advice and external assurance required. As part of the transition I have set in motion a recruitment exercise for executive and non-executive director posts – to ensure the skill sets required for the new agency are met.

Risk Management

The agency follows HM Treasury guidance with the aim of managing risk to a reasonable level rather than to eliminate all risk of achieving policies, aims or objectives. DSA's positive culture of risk management is led by the board which ensures policy and strategy is in place and supported through the embedded risk processes at each level of the agency. The Corporate Risk Manager (CRM) is supported by the Head of the Office of the Chief Executive, who is the agency Risk Champion. They both report directly to the CEO, oversee the risk management process, provide specialist advice and attend the A&RC. The corporate risk register is used by Internal Audit to inform the annual audit programme.

The board reviews high level risks monthly which have arisen through either a top-down review or bottom-up reporting. There are regular spotlights on specific risks at board meetings and risk identification workshops during strategic awaydays. The board receives input from a Risk Scrutiny Panel which considers high level risks against the wider context of the organisation. Each directorate has a local risk champion to co-ordinate risk reporting, assist in management of the risks and share best practice across the agency. The CRM liaises monthly with risk champions on the directorate's risks and holds quarterly meetings to discuss cross-agency risk management. The agency also has in place an anonymous email route for reporting risks. The agency attends the Department's regular Group Risk Management meetings and reports high level risks to the Managing Director of the Motoring Services Group through the group monthly report and regular agency performance meetings.

DSA and VOSA are executive agencies of DfT and the Transitional Board is mindful of central related risk policies. DfT has stated that the resources available for managing risk are finite and so its aim is to achieve optimum response to risk, prioritised in accordance with its evaluation of the likelihood and potential impact of risk occurring. The directors recognise that innovation and opportunities to improve services will require some risk taking and are committed to ensuring DSA and VOSA have an appropriate framework so that risks can be assessed and managed.

Due to the changing environment the Transitional Board is operating in and the inherent need to be flexible in order to deliver challenging aims, the board considers the current appetite to risk taking to be 'open'. That is to say 'willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward'.Therefore, 'risk appetite' needs to be considered on a risk-by-risk basis, with each risk assessed on its own merit after consideration of such trade-offs and costs/benefits of mitigating actions, taking into account wider cumulative risk exposures and cross cutting issues.

The Transitional Board has agreed a risk management system for DSA and VOSA which will be reviewed during the year by the Audit and Risk Committees while the Transitional Board considers the key business risk register at each meeting. For assurance of effective risk management the Transitional Board may call for a "risk spotlight" report in relation to one or more specific risks on the register. Risk management has been built into the two agencies' planning systems and is embedded in all governance processes. Risk management is an integral part of quality processes within programme, project and operational services. DSA and VOSA fully recognise the principles for public risk management and report the top key business risks for each agency to DfT on a monthly basis.

The key risks that have been managed through DSA's corporate risk register this year have been:

- <u>Computer Based Testing Framework Agreement (Driving Theory Test contract)</u> - the agency and the Government Procurement Service (GPS) jointly ran a competition to appoint a supplier for a framework contract to provide computer-based testing for the Government. The competition was concluded in early 2013. The decision to award the framework agreement was subject to a formal challenge which prevented award of the contract during the course of the challenge. To ensure continued supply of the driving theory test and a reduction in test fees, and in accordance with government policy to manage disputes by the most effective and appropriate means possible, this dispute was resolved by agreement. This resolution enabled the award of a government framework agreement to a new supplier in October 2013. A call-off contract for the driving theory test was also awarded such that the new supplier will provide the driving theory test from September 2016. The current provider will continue to provide the test until that date. These contract arrangements will result in savings in excess of £100m over the next nine years with tests becoming available at more locations. As a consequence of the formal challenge, the Permanent Secretary of the DfT commissioned an independent review of the handling of the competition by officials in the Driving Standards Agency and other parts of the Department. This has now concluded. As a result of the challenge, and as a matter of good practice, the DfT also conducted a lessons learned exercise with a view to sharing good practice more widely for future procurements and which was published in April 2014. These lessons are being taken forward by the agency and include the establishment of a procurement assurance function within the agency. The document can be found at Theory test lessons learnt.

- ICT Strategy – the agency had an IT strategy in place at the beginning of the year that it was working to deliver. At the point of announcing the merger, this was revisited and opportunities sought to align IT services. This consolidated approach seeks to address obsolete technology as well obtain value for money and benefits of a wider procurement for the key IT support contracts nearing expiry. The value of the contract necessitates the agency, alongside DfT, working through the complex set of Government assurances to gain approval; this continues to prove challenging. Risks are being closely managed and some delays mitigated through flexible exit terms with incumbent suppliers.
- Shared Services – the migration to ISSC1 has been governed through a shared services project board that has identified and managed risk. In turn the DSA board has reported risks to the implementation of Shared Services to the department regularly through the year to inform its high level shared services programme. The agency and DfT agreed an extension to the implementation date from April to later in 2014, giving the supplier additional time to establish the infrastructure to support the broad range of services that this programme encompasses.
- DSA/VOSA merger – following the announcement of the merger, the board cascaded the importance of maintaining the corporate aims and deliverables of each agency through its directorate risk registers. It subsequently received monthly feedback on the management of this risk highlighting any hot spots for attention. Going forward the strategic change portfolio now reflects all change activities from DSA and VOSA.

The annual internal audit of the agency's risk management function received a 'substantial' assurance rating.

Internal Control

DSA's integrated assurance framework provides assurance on the management of risks associated with the achievement of DSA objectives and measures from a variety of sources including management assurance, internal and external audit.

Management controls

Directors and line management

The board and senior management consider and review top risks faced by DSA on a monthly basis through individual meetings with the agency risk co-ordinator. Further reviews of the agency's risks are considered at the Transitional Board on a monthly basis and at the audit and risk committee quarterly.

Performance reviews are undertaken between the Chief Executive, Finance Director and DfT where performance against the business plan is discussed.

Senior managers, directors and non-executive directors provide an annual assurance through the DfT management assurance return.

Financial control

DSA produces a ten-year long term financial forecast and generates a formal budget plan every year. Performance is monitored against this plan on a monthly basis between finance business partners and budget holders and by Business Performance Board. The plan also includes non-financial performance measures which are also monitored monthly by the Business Performance Board. During the year financial performance risks were managed to deliver the financial plan.

DSA's finance team undertake a series of routine monthly checks to ensure the accuracy and validity of the financial records, reconciling account balances and ensuring control procedures have been applied. DSA operates a system of delegated authority to incur expenditure with defined approval limits for managers. This system is captured in DSA's Standing Orders and Standing Financial Instructions.

Management assurance

Executive directors complete the DfT led management assurance report on the full range of delegations, policies and procedures laid down by the agency and the department, the adequacy of the arrangements within their directorate and what remedial action is being taken where improvement is needed.

During 2013-14 the agency has paid particular attention to improving:

- Risk Management – DSA and VOSA risk managers have worked closely together to merge the risk management processes of both agencies into one. Face to face training has taken place with senior managers on the merged risk management process.
- Business Continuity – Following an audit of the DSA business continuity function in early 2013, we recognise that there was a significant delay in addressing outstanding management actions. As part of the ongoing merger of DSA and VOSA, we are now receiving assistance from the VOSA business continuity manager and have appointed an additional business continuity officer to ensure that gaps are swiftly filled. This forms part of our wider efforts to bring together the Business Continuity Management systems of both agencies. DSA processes are now within the scope of the pre-existing VOSA Business Continuity Steering Group, which provides improvements to corporate governance and ensures continued scrutiny of BCM and tighter controls on outstanding audit actions.
- Records Management – DSA has a specialist records management team to facilitate compliance with DfT Records Policy, guidance from the National Archives and the Communications Electronic Security Group. The agency has an established management system for paper based records which is monitored for compliance with the HMG Security Framework. The agency has a long term project to improve control of the large volume of electronic records held.
- Succession Planning – directors and senior managers have worked with HR business partners to identify business critical roles enabling the development of succession plans for key staff.

Macpherson & Analytical Models

I can confirm that DSA has established an appropriate quality assurance framework that is used for all business critical models. All models meeting the DfT criteria have been notified to the Department.

Internal audit
Internal audit provides quarterly and annual reports of audit activity in the agency which includes an independent opinion of the adequacy and effectiveness of the agency's systems of internal control, together with recommendations for improvement. In year the A&RC improved the management action tracking process to gain assurance that the necessary change had been embedded. This progress has been maintained throughout the year.

The Head of Internal Audit has provided the following assessment "on the basis of the evidence obtained in 2013-14. "I am able to provide an overall 'partial' assurance rating on the adequacy and effectiveness of the DSA's arrangements for corporate governance, risk management and internal control".

External accreditation and external review
DSA has retained the Customer Service Excellence Award and Contact Centre Accreditation for delivering high standards to all its customers.

The agency has also retained are the Investors in People accreditation and ISO 14001 for the environmental management system.

Project and programme management
Managing Successful Programmes, PRINCE2 and Major Project Authority standards are inbuilt and monitoring of project development against these is an integral element to project and programme management. All project and programmes maintain risks and issues registers which follow the agency's risk reporting guidelines. Project and programmes are subject to business case approval. All potential projects requiring investment over £250,000 are assessed by the ICB, with further approvals by the transitional directing board and DfT as appropriate.

Significant projects are subject to 'gateway reviews', an external peer review to assess the management of the project and the probability of successful implementation. I instigated a review of the project management office function to ensure it is fit for purpose for the new agency.

Regulatory risk
Public stakeholders are involved in the extensive consultation process that precedes major changes in policy and regulations. Regulatory changes are only made after being cleared via the Government's stringent regulatory clearance process that examines in detail the arguments for change and the supporting cost benefit analysis to ensure that regulatory change is absolutely necessary and proportionate to the problem to be solved. Non-regulatory changes are made taking account of the Governments ARI principles (Accountability for Regulator impact) which recommend best practice and involvement of stakeholders in the decision making process.

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

There was one low level breach involving an individual's records which was reported to the Information Commissioner's Office. There is no suggestion that this breach could have been used to facilitate financial fraud against customers or other parties.

Health and Safety (H&S)
Qualified H&S teams are in place in key area offices and these teams are actively helping to drive safety forward by completing H&S audits and fire inspections. Team skills are constantly being updated and refreshed. All accidents and incidents are recoded and reported as necessary, and details entered into the former DSA incident database. All accidents and incidents are investigated and analysed along with a review of the relevant risk assessments, to ensure that any additional controls are identified and implemented.

DSA is working in partnership with the total facilities management contractor, Interserve facilities management, to ensure that all relevant estates and facilities statutory obligations are being met. In particular, this approach has delivered substantial improvements in the completion of statutory assessments. Work continues to increase efficiency in the delivering of remedial work and projects. The H&S team have monitored statutory arrangements as part of their location inspection process and feedback shortcomings to the relevant management team for action.

Procurement and contract management
Significant procurement risks relate to the tendering, award and management of contracts as well as legal compliance with Public Contracts Regulations. Control measures were in place to ensure separation of contractual from financial approval supported by appropriate documentation and processes. The contract database contains expiry and review dates that are used to instigate the contract renewal process and generate a monthly contract activity report to the ICB highlighting any cause for concern.

Throughout 2013-14 procurement activities started to re-let both the theory test and IT contract.

Quality assurance
DSA retained certification to the ISO 9001:2008 quality management standard. The scope of the accreditation covers licence acquisition for cars, buses and lorries. DSA's quality management system promotes a culture of continuing improvement and covers all associated business processes including management reviews, test delivery, document control and training. Compliance with the principles of the standard ensure uniform and consistent service delivery standards across the business.

Outsourced delivery partners
A number of key activities are provided to DSA by its outsourced partners. These include Pearson Vue who deliver the theory tests, Capita who deliver DSA's IT contract and shared services arvato who operate financial and human resources systems according to a DfT blueprint.

Fraud and bribery
DSA faces risk of fraud and bribery, both externally and internally, which may undermine the driving assessment process. DSA's Fraud and Integrity Team (FIT) reviews risks and measures in place to combat fraud and bribery and conducts investigations with respect to impersonations at driving test, illegal driving instructors, malpractice, bribery and losses. DSA aim to gather sufficient, appropriate evidence to enable the Crown Prosecution Service and the Crown Office in Scotland to successfully prosecute instances of fraud and bribery.

Review of effectiveness of internal control
As Accounting Officer, I have responsibility for reviewing the governance and effectiveness of the system of internal control within DSA. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, managers and the executive team within the agency and maintenance of the internal control framework, and comments made by external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the

A&RC and plan to address any weaknesses identified and ensure a programme of continuous improvement of the system in in place.

Non-executive directors' statement

During 2013-14, the Non-Executives have been involved in both board and major board committee discussions and decisions in both DSA and VOSA. Based on this exposure to the organisation, and having received management and other independent assurance, we are content that there are no material issues requiring disclosure in the annual governance statement other than those already included.

The board has continued to function reasonably effectively and thorough discussion and challenge is provided by executive and non-executive members for each decision. The board's functioning has been challenged during the year as key positions have been necessarily left open. This has required significant effort on the part of the Transitional Board executive members to ensure that the two agencies continue to deliver their operating objectives within a reasonable control framework. After each board meeting, one member provides feedback on the effectiveness of the meeting and identifies areas for improvement. The cessation and amalgamation of the two agency board structures into a Transitional Board has meant that an annual assessment has not been completed. We have been assured that when the DVSA Board is fully constituted, its terms of reference will include the requirement for an annual assessment.

In terms of concerns, there is a need for ongoing focus on the implementation of the IT replacement strategy and the implementation of shared services. Both of these are under significant time pressure, affect both DSA and VOSA and have significant external involvement in the approval process.

Conclusion

The above procedures provide me with reliable assurance that DSA procedures and internal controls have been effective throughout the year.

A. Peoples
Chief Executive and Accounting Officer
11 June 2014

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 Driving Standards Agency for the year ended 31 March 2014 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Net Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Driving Standards Agency's affairs as at 31 March 2014 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Emphasis of matter

Without qualifying my opinion, I draw attention to the disclosures made in note 1(r) to the financial statements concerning the Accounting Officer's consideration of going concern, in the light of Ministerial announcements that the services currently provided by the Vehicle and Operator Services Agency and the Driving Standards Agency will be brought together within a new agency from April 2015. This is subject to Parliamentary approval and there is therefore uncertainty over the Driving Standards Agency's ability to continue to operate in its current legal form as a separate trading fund.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in Directors' Report and the Strategic Report included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

Date 18 June 2014

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial Accounts Statements

Statement of Comprehensive Net Income

For the period ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Income from operations			
Income from statutory services	2	185,147	172,141
Income from other operating activities	2	15,494	10,762
Total income from operations		**200,641**	**182,903**
Expenditure from operations			
Staff costs	3	(81,595)	(82,006)
Other operating charges	4	(85,189)	(76,695)
Depreciation and amortisation	6 & 7	(8,476)	(9,718)
Profit / (Loss) on sale of assets		152	(17)
Total expenditure from operations		**(175,108)**	(168,436)
Net operating surplus		**25,533**	**14,467**
Finance income		223	218
Finance costs	5	(9,328)	(9,364)
Net finance costs		**(9,105)**	(9,146)
Surplus for the year		**16,428**	5,321
Other comprehensive net income			
Revaluation of assets released to the SoCI		2,269	(3,703)
Impairment of property, plant and equipment	6	(265)	(223)
Total other comprehensive net income / (expenditure)		**2,004**	(3,926)
Total comprehensive net income for the year		**18,432**	**1,395**

All income and expenditure is derived from continuing activities.

Accounting policies and notes forming part of the Financial Statements are on pages 49 to 69.

Statement of Financial Position

As at 31 March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Non-current assets			
Property, plant and equipment	6	102,734	100,249
Intangible assets	7	9,355	14,728
Total non-current assets		**112,089**	**114,977**
Current assets			
Trade and other receivables	8	18,085	7,790
Assets held for sale	9	246	229
Cash and cash equivalents	15	76,925	68,340
Total current assets		**95,256**	**76,359**
Total assets		**207,345**	**191,336**
Current liabilities			
Trade and other payables	10a	(79,936)	(61,818)
Provisions	11	(905)	(1,828)
Total current liabilities		**(80,841)**	**(63,646)**
Total assets less current liabilities		**126,504**	**127,690**
Non-current liabilities			
Provisions	11	(934)	(1,503)
Other payables	10b	(49,379)	(48,649)
Total non-current liabilities		**(50,313)**	**(50,152)**
Assets less liabilities		**76,191**	**77,538**
Taxpayers' equity			
Public dividend capital		3,475	3,475
Loans from the Secretary of State	12	8,036	29,846
General fund		48,374	31,048
Revaluation reserve		16,306	13,169
Total taxpayers' equity		**76,191**	**77,538**

Accounting policies and notes forming part of the Financial Statements are on pages 49 to 69.

A. Peoples
Chief Executive and Accounting Officer
11 June 2014

Statement of Cashflows

For the period ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Cashflow from operating activities			
Net operating surplus	SoCI	25,533	14,467
Adjustments for non-cash transactions	16	7,710	11,133
(Increase)/decrease in trade and other receivables	8	(10,295)	90
Increase/(decrease) in trade payables within one year	16	9,614	(69)
Increase in trade payables after more than one year	10	730	236
Use of provisions	11	(904)	(991)
Net cash inflow from operating activities		**32,388**	**24,866**
Net cash flow from investing activities			
Purchase of property, plant and equipment	6	(1,496)	(740)
Purchase of intangible assets	7	(78)	(1,912)
Change in other non current assets		-	-
Proceeds from disposal of property, plant and equipment		156	106
Net cash (outflow) from investing activities		**(1,418)**	**(2,546)**
Net cash flow from financing activities			
Interest received from cash balances	SoCI	223	218
Interest payments made under finance leases	5	(6,611)	(6,457)
Repayment of loans from the Secretary of State	15	(14,570)	(8,738)
Interest payable on loan financing	5	(1,427)	(2,132)
Net cash (outflow)/inflow from financing activities		**(22,385)**	**(17,109)**
Net increase/(decrease) in cash and cash equivalents		8,585	5,211
Cash and cash equivalents at the beginning of period		68,340	63,129
Cash and cash equivalents at the end of the period		**76,925**	**68,340**

Accounting policies and notes forming part of the Accounts are on pages 49 to 69.

Statement of Changes in Taxpayers' Equity

For the period ended 31 March 2014

	Public Dividend Capital	Loans from the Secretary of State	General Fund	Revaluation Reserve	Total Taxpayers' Equity
	£000	£000	£000	£000	£000
Balance as at 31 March 2013	**3,475**	**29,846**	**31,048**	**13,169**	**77,538**
Changes in 2013-14					
Movement on loans in the year	-	(21,810)	-	-	(21,810)
Net Movement on revaluation of property, plant and equipment	-	-	-	2,031	2,031
Transfers between reserves	-	-	(1,106)	1,106	-
Total comprehensive net income for the year	-	-	18,432	-	18,432
Total	-	(21,810)	17,326	3,137	(1,347)
Balance as at 31 March 2014	**3,475**	**8,036**	**48,374**	**16,306**	**76,191**

The revaluation reserve and public dividend capital are non-distributable.

	Public Dividend Capital	Loans from the Secretary of State	General Fund	Revaluation Reserve	Total Taxpayers' Equity
	£000	£000	£000	£000	£000
Balance as at 31 March 2012	**3,475**	**44,416**	**27,747**	**12,940**	**88,578**
Changes in 2012-13					
Movement on loans in the year	-	(14,570)	-	-	(14,570)
Net Movement on revaluation of property, plant and equipment	-	-	-	2,135	2,135
Release of reserves to the SoCI					
Transfers between reserves	-	-	1,906	(1,906)	-
Net operating surplus for the year	-	-	1,395	-	1,395
Total	-	(14,570)	3,301	229	(11,040)
Balance as at 31 March 2013	**3,475**	**29,846**	**31,048**	**13,169**	**77,538**

Accounting policies and notes forming part of the Financial Statements are on pages 49 to 69.

Notes to the financial statements

Note 1 – Accounting policies

a) Accounting conventions and basis of preparation

These financial statements have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) for companies to the extent that they are meaningful and appropriate to the public sector, and are updated routinely to reflect new or amended IFRS. 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 the DSA for the purpose of giving a true and fair view has been selected. These accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements.

The FReM includes no new standards applicable to DSA and DSA has not adopted any new standards early.

The financial statements have been prepared under the going concern assumption and the historical cost convention, modified for the revaluation of property, plant and equipment and intangible assets, in a form directed by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

b) Income recognition

DSA levies fees and charges for the majority of its activities, including for theory and practical driving tests, managing statutory and other registers, approval of training bodies and courses and a range of commercial activities. The majority of test fees are received in advance.

Income is recognised in the Statement of Comprehensive Net Income when the candidate takes the test or the service is delivered. Fees and charges received in advance of a test or other service being conducted are shown as deferred income within 'Trade and other payables'.

c) Government grants and funding

Grants received are recognised as income to match the expenditure it is funding in accordance with IAS 20 in order to show a 'true and fair view'.

d) Borrowing costs

Borrowing costs are expensed in line with IAS 23.

e) Pension and payroll costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. The DSA is unable to identify its share of assets and liabilities. Due to the multi-employer nature of the scheme, the agency accounts for the scheme as a defined contribution plan.

The defined benefit elements of the schemes are unfunded and are contributory with further voluntary contributions in respect of dependants' benefits. The DSA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes.

A full actuarial valuation was carried out as at 31 March 2007. Details can be found at **(http://www.civilservice.gov.uk/pensions/governance-and-rules/actuarial-review).**

DSA recognises the cost of providing employee benefits, such as holiday pay, in the period in which the benefit is earned by the employee.

f) Value Added Tax (VAT)

The DSA is not separately registered for VAT and VAT is accounted for through the Department for Transport (DfT) group registration. DSA recovers VAT on certain contracted out services. Income and expenditure are normally shown net of VAT, and VAT is charged to the relevant expenditure category where it is irrecoverable.

g) Segmental reporting

The DSA is not required to provide segmental reporting under IFRS8 because it operates as a single agency within a single market (United Kingdom) but provides an analysis of income and expenditure for key activities for the purposes of Fees and Charges regulations.

DSA uses several bases for apportioning costs to activities, based on management's best estimate of the driver of costs.

h) Property, plant and equipment

The minimum value for capitalisation is £2,000 for individual assets. Items of a lower value can be capitalised where these form part of a larger group of assets or a specific project. Computer hardware is capitalised irrespective of value.

Depreciation is charged from the month of implementation on a straight-line basis. Assets in the course of construction are not depreciated until brought into use.

The asset categories and estimated useful lives are as follows:

Property:
Freehold land – no depreciation
Leasehold land – life of the lease
Freehold and leasehold buildings – lower of estimated useful life or 40 years
Enhancements to leasehold properties – life of the lease

Plant and equipment:
IT hardware – 5 to 10 years
Furniture and fittings – 5 to10 years
Motor vehicles – 3 to 5 years
Other equipment – 5 years

Approximately a fifth of DSA's land and buildings are revalued via physical inspection each year by P M Scammell, District Valuer Services, in accordance with the RICS Appraisal and Valuation Manual such that all properties have been revalued over a five-year cycle. The value of the remaining property estate is adjusted each year by appropriate and relevant industry indices supplied by an independent professional body. Properties are first revalued when brought in to use.

Specialised properties, such as the multi-purpose test centres, are valued using the Depreciated Replacement Cost method due to their specialist usage. Abnormal and legal costs are carried at historic cost as these are considered one-off in nature and not subject to market fluctuations. The values of non-specialist properties are based upon their market value for their existing use. These are considered to be their fair value.

Other non-current assets are revalued annually using appropriate current cost accounting indices published by the Office of National Statistics. Indices are first applied in the year following acquisition.

Surpluses on valuations are taken to the revaluation reserve. Permanent reductions are charged against any previous revaluation surpluses for those assets, if available, and, if not, to the Statement of Comprehensive Net Income.

Property, plant and equipment are stated at valuation less accumulated depreciation.

i) Intangible assets

Intangible assets consist of software licences and IT system developments and have estimated useful lives of between five and seven years.

Expenditure on IT systems development is written off in the period in which it is incurred unless it is reasonably certain that the systems will be of use in a future period, when the expenditure is capitalised. Systems under development are shown as Assets Under Construction until they become operational.

Intangible assets are revalued annually using appropriate current cost accounting indices published by the Office of National Statistics. Indices are first applied in the year following acquisition. This is considered to be their fair value. Intangible assets are stated at valuation less accumulated depreciation.

j) Trade and other receivables

Trade and other receivables are recognised initially at the original invoiced amount. Subsequent to initial recognition, they are shown at amortised cost using the effective interest method, less any impairment losses.

k) Assets held for sale

Assets held for sale comprise properties and motor vehicles that are no longer in operational use, are available for immediate sale in their present condition and are being actively marketed. The assets are transferred from non-current to current assets at the lower of carrying amount and expected net proceeds from sale. Assets held for sale are not depreciated.

l) Cash and cash equivalents

Cash is held within a current account with the Government Banking Service. Cash not required for short-term operational needs is deposited with the National Loans Fund. These deposits are shown as cash and cash equivalents in the Statement of Financial Position.

m) Trade and other payables

Trade and other payables are recognised initially at original invoiced amount at the time the amount becomes payable under the contract.

n) Provisions

Provisions are realistic and prudent estimates of the expenditure required to settle present legal or constructive obligations that exist at the year end. The Treasury discount rate (1.8% for pensions and (1.9%) for all other provisions) is applied to take account of the time value of money where significant cash flows are expected to arise beyond the next financial period.

> Dilapidations – the provision is the assessment of the likely cost of rectifying dilapidations under lease terms. Many of these obligations will not arise for a number of years. In making these assessments, the DSA has applied a risk based approach on a property-by-property

basis looking forward for the next three years. Any dilapidations likely to be payable after three years are difficult to reliably predict and are, therefore, excluded from the provision.

Restructuring – provision is made for the expected costs of restructuring, including staff leaving under voluntary early retirement arrangements, when the arrangement is agreed. Costs include the total pension liability up to normal retirement age in respect of each employee. Amounts are released from this provision annually until normal retirement age.

Legal claims – the provision is an estimate of the expenditure arising from all the legal claims against the agency which are expected to materialise following due legal process, which include claims for unfair dismissal, discrimination and personal injury.

Rent increases – provision is an estimate of the likely rent increase which may materialise following contract negotiation and may be back dated to the start of the new lease period.

o) Lease arrangements

Lease arrangements are assessed to determine their inclusion as either operating or finance leases.

Rental payments for operating leases are charged to the Statement of Comprehensive Net Income in the year they arise.

Lease arrangements under which the agency assumes substantially all the risks and rewards of ownership are categorised as finance leases. These leases, which include the multi-purpose test centre buildings, are capitalised as non-current assets at fair value and depreciated over the life of the lease, normally 40 years. The obligation under the finance lease is shown primarily as a non-current liability, with the amount due less than one year shown as a current liability. Finance charges relating to the lease are charged to the Statement of Comprehensive Net Income in the year.

p) Financial instruments

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The agency has considered the requirements of the relevant accounting standard (IAS32 and IAS 39) and has disclosed at notes 8 and 15 the information it is required to report.

The carrying values of the agency's financial assets and liabilities at 31 March 2014 are considered to represent fair value. This is due to the short term nature of the financial instruments held.

The agency does not account for any fixed rate financial assets and liabilities at fair value through the statement of comprehensive net income, and the agency does not designate derivatives as hedging instruments under fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the surplus position.

q) Critical accounting judgements and estimates

The preparation of these financial statements requires management to make judgements and estimates that affect the amounts reported for assets and liabilities as at the date of the Statement of Financial Position, and the amounts reported as income and expenditure during the year. Owing to the nature of these estimates, the actual outcome may differ from these estimates. Areas which the DSA believes require the most critical accounting judgments and estimates are:

1) Provisions
Provisions have been established under the criteria of IAS 37 and are based on realistic and prudent estimates of the expenditure required to settle present legal or constructive obligations that exist at the year end.

2) Impairment
The FReM applies IAS 36 to ensure that assets are carried at no more than their recoverable amount – the amount to be recovered through use or sale of the asset. A review of assets is undertaken annually to determine if an asset meets the impairment criteria when the asset value is restated to the underlying recoverable amount.

3) Property, plant and equipment
Property, plant and equipment represent a significant proportion 49% (2012-13: 52%) of the total assets of the agency. Therefore the estimates and assumptions made to determine their carrying value and related depreciation are critical to the DSA's financial position and performance.

a) Valuations
Management uses the advice of independent professional advisers to value the property estate in line with the policy stated at 1h) above. Other assets are valued using indices. Management confirm annually that the indices used remain appropriate.

b) Estimation of useful life
The useful lives and residual values of assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life.

4) Assets held for sale
Assets held for sale are held at the lower of carrying amount and management estimates of net sales proceeds.

5) Apportionment of costs to statutory activities
Note 2 to the financial statements shows the income and expenditure relating to statutory activities. The agency's management reviews its activities to ensure that the financial objective, to recover full costs inclusive of a rate of return on capital employed of 3.5%, taking one year with another, is met.

A number of assumptions are used in applying costs to income generating activities. Direct costs can be more accurately attributed to activities. However, with overheads, several different apportionments are applied to overhead cost based on management's best estimate of the driver of costs. Examples of cost drivers used by the DSA include throughput of tests, examiner utilisation and length of tests.

r) Going concern
On 20 June 2013, the Minister issued a statement to the House of Commons outlining changes to the role of the agency following the consultation on the Department's Motoring Services strategy that ran from 13 December 2012 to 7 March 2013 as part of the commitment to delivering better quality and better value services to the public and business.

A new single agency will bring together all of the services that are currently provided by the Vehicle and Operator Services Agency (VOSA) and the Driving Standards Agency (DSA). The initial move took place in July 2013 - a single Chief Executive and Transitional Board were appointed to oversee the two agencies.

The Minister announced on 28 November 2013 that the new agency will be called the Driver and Vehicle Standards Agency (DVSA). Furthermore DSA and VOSA will continue to be two separate trading funds until April 2015. DVSA will then gain trading fund status under the provisions of the Government Trading Funds Act of 1973, amended. DVSA was formally launched on 2nd April 2014. Work is ongoing in both DVSA and DfT, and is subject to Parliamentary approval, in order to bring the new arrangements into effect.

This will enable a single agency to deliver the same high quality service, while making it easier for customers to navigate the services offered, and will reduce the administrative burden for those individuals and businesses that currently have regular contact with both DSA and VOSA.

Due to the fact that the statutory duties of the Driving Standards Agency / Vehicle and Operator Services Agency will continue to be provided by the new agency following the merger, management considers it appropriate to continue to adopt the going concern basis in preparing the Annual Report and Accounts.

s) Impact of future financial standards

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2014 and have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may be adopted in subsequent periods:

1) IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of this standard is tentatively scheduled for periods beginning on or after 1 January 2018. Initial application of IFRS 9 is expected to have a limited impact on DSA;
2) IFRS 10 Consolidated Financial Statements outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. It is effective for annual periods beginning on or after 1 January 2014. Consolidation boundaries are determined by HM Treasury based upon Office for National Statistics sector classification. It is expected to have limited impact on DSA;
3) IFRS 11 Joint Arrangements outlines the accounting by entities that jointly control an arrangement and is effective for annual periods beginning on or after 1 January 2016. As DSA does not participate in any joint operations or joint ventures it is not expected to impact on DSA;
4) IFRS 12 covers disclosures of interest in other entities. This standard will have no impact;
5) IFRS 13 sets out the framework for measuring fair value. FReM Exposure Draft ED(13)01 has been released with adoption originally expected for the year commencing 1 April 2014. This has now been delayed with adoption now expected for the year commencing 1 April 2015. The policy clarifies the definition of “fair value” in the context of assets and liabilities. This is likely to have significant impact on the values of property assets in DSA’s books that are currently held at fair value for existing use.
6) Revisions to IAS 16 set out the rationale for the classification of servicing equipment as property, plant and equipment instead of classification as inventory under IAS2 and is due to become effective for annual periods beginning on or after 1 January 2016 It is expected that this revised IAS will have no impact on DSA’s accounts;

7) The International Accounting Standards Board (IASB) is currently developing a replacement to the existing leasing standard, which is expected to eliminate off-balance sheet leasing arrangements, and require recognition of a single right–of-use asset, measured at the present value of the lease payments. As DSA currently occupies properties under operating leases, this is likely to have an impact on the statement of financial position.

Other amendments to the FReM which are due to come into effect after 2014/15 are considered to have no impact on DSA.

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

The following information is produced for Fees and Charges purposes and does not constitute segmental reporting under IFRS 8 – Operating segments

Activity	2013-14 Income £000	2013-14 Expenditure £000	2013-14 Surplus/ (deficit) £000	2012-13 Income £000	2012-13 Expenditure £000	2012-13 Surplus/ (deficit) £000
Cars	148,021	134,481	**13,540**	135,725	134,676	**1,049**
Large goods/passenger carrying vehicles	12,020	10,855	**1,165**	11,052	10,936	**116**
Motorcycles	6,126	7,204	**(1,078)**	8,934	10,916	**(1,982)**
Approved Driving Instructor	4,399	5,167	**(768)**	5,558	6,258	**(700)**
Certificate of Professional Competence	13,071	8,389	**4,682**	9,366	6,874	**2,492**
Compulsory Basic Training	1,495	1,414	**81**	1,477	1,710	**(233)**
DDR Course Application fee	15	182	**(167)**	29	254	**(225)**
Total from statutory services	**185,147**	**167,692**	**17,455**	**172,141**	**171,624**	**517**
Total from other operating activities	15,494	14,517	**977**	10,762	9,884	**878**
Total	**200,641**	**182,209**	**18,432**	**182,903**	**181,508**	**1,395**

Each Statutory Service has a financial objective to recover full costs inclusive of a rate of return on capital employed of 3.5%, taking one year with another. Other operating activities have a financial objective set under the HM Treasury Fees and Charges Guide to recover full costs, as a whole, having taken into account the relevant return on capital employed. Expenditure shown in these accounts excludes any charge for return on capital employed.

Property revaluations are included in the analysis, and the impact may change from year to year as market prices fluctuate.

Other operating activities comprise any activities that are non-statutory including commercial activities.

The analysis of income from other operating activities is as follows:

	2013-14 £000	2012-13 £000
DfT funding for modernising employment contact	8,584	-
Enforcement services (DfT funded)	1,964	3,456
Royalties from sales of publications	1,800	1,654
Taxi testing	1,319	1,099
Other sundry income	1,263	1,627
DfT funding for the SSC Migration	564	-
DfT funding of early release scheme	-	2,926
Total income from other operating activities	**15,494**	**10,762**

Note 3 – Staff costs and employee numbers

a) Staff costs

	2013-14			2012-13		
	£000	£000	£000	£000	£000	£000
	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
Wages and salaries	65,843	197	66,040	66,227	35	66,262
Social security costs	4,777	-	4,777	4,698	-	4,698
Other pension costs	10,778	-	10,778	11,046	-	11,046
Total staff costs	**81,398**	**197**	**81,595**	**81,971**	**35**	**82,006**

b) Average numbers of persons* employed

	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
Directly employed						
Management	96	1	97	101	-	101
Administrative and support	417	2	419	508	-	508
Professional and technical	1,648	-	1,648	1,724	-	1,724
Total persons	**2,161**	**3**	**2,164**	**2,333**	**-**	**2,333**

* Persons are defined as full-time equivalents employed during the year.

c) Exit Package Cost Band

	Compulsory Redundancies		Other Agreed Departures		Total by Cost Band	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
<£10,000	-	-	-	17	-	17
£10,000-£25,000	-	-	-	62	-	62
£25,000-£50,000	-	-	-	36	-	36
£50,000-£100,000	-	-	-	9	-	9
£100,000-£150,000	-	-	-	-	-	-
£150,000-£200,000	-	-	-	1	-	1
Total Packages	**-**	**-**	**-**	**125**	**-**	**125**
Total Cost (£000)	**-**	**-**	**-**	**3,088**	**-**	**3,088**

Exit costs are accounted for in full in the year the departure is agreed. Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Where the agency has agreed early retirements, the additional costs are met by the agency and not by the Principal Civil Service Pension Scheme (PCSPS). Ill-health retirement costs are met by the PCSPS.

During the financial year 2013-14 there were no payments made which were not covered by the Civil Service Compensation Scheme. (2012-13 - £nil).

d) Review of Tax Arrangements of Public Sector Appointee

Off- payroll engagements for more than £220 per day and more than six months as at 31 March	**2013-14**	**2012-13**
Number of new engagements	4	-
The number of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	3	-
Number of whom assurance has been requested and received	3	-
Number of whom assurance has been requested but not received	-	-
Number that have been terminated as a result of assurance not being received	-	-

During the financial year 2013-14 there was one off-payroll engagement of more than £220 which lasted six months and 20 days. The contract did not include an assurance clause in relation to income tax and national insurance. No assurance was sought and that contract has ended. All subsequent contracts contain an assurance clause and assurance is sought.

Note 4 – Other operating charges

	2013-14	**2012-13**
	£000	**£000**
Theory test contractor charges	38,065	31,460
Accommodation costs	11,407	10,290
Rentals under operating leases: buildings	7,858	7,976
Computer agency charges	7,471	6,817
Staff travel and subsistence	3,858	4,775
Other charges	2,994	1,198
Shared service centre charges	2,888	1,904
Administration costs	3,273	3,530
Other contracted services	2,344	1,637
Enforcement services	2,315	2,433
Cost of periodic training approval	1,345	1,255
Credit card and bank charges	1,165	1,080
Disclosure and Barring Service checks	844	883
Net increase / (decrease) in provisions required in the year (see note 11)	(708)	1,387
Auditors' remuneration and expenses	70	70
Total other operating charges	**85,189**	**76,695**

Note 5 – Finance costs

	2013-14 £000	2012-13 £000
Interest costs		
On loans from the Secretary of State	1,427	2,132
On finance leases	6,611	6,457
Unwinding of discount on provisions	26	(11)
Total interest costs	**8,064**	**8,578**
Dividends payable		
The dividend payment to DfT is calculated as follows:		
3.5% return on capital employed	2,691	2,918
Less: Interest payable on loans from DfT	(1,427)	(2,132)
Dividends payable	**1,264**	**786**
Total finance costs	**9,328**	**9,364**

DSA pays each year to DfT a return on capital employed in the form of interest payments on loans or as a dividend. The calculated level of return for 2013-14 based upon a target level of 3.5% return on average capital employed of £76,865,000. Average capital employed for 2012-13 was £83,058,000.

Note 6 – Property, plant and equipment

2013-2014	Land £000	Buildings £000	IT Equipment £000	Plant and Machinery £000	Furniture and Fittings £000	Assets Under Construction £000	Total £000
Cost or valuation							
At 1 April 2013	14,916	93,576	5,227	5,050	2,290	211	121,270
Additions	-	-	324	52	10	1,110	1,496
Revaluation	(588)	5,181	(435)	(460)	(138)	-	3,560
Impairment	(286)	-	-	-	-	-	(286)
Transfers	-	100	(71)	97	-	(197)	(71)
Disposals	-	-	(267)	(142)	-	-	(409)
At 31 March 2014	**14,042**	**98,857**	**4,778**	**4,597**	**2,162**	**1,124**	**125,560**
Depreciation							
At 1 April 2013	25	10,540	4,386	4,206	1,864	-	21,021
Charge for the year	-	3,334	309	352	166	-	4,161
Revaluation	-	(1,066)	(369)	(385)	(114)	-	(1,934)
Impairment	(21)	-	-	-	-	-	(21)
Transfers	(4)	4	(13)	-	-	-	(13)
Disposals	-	-	(267)	(121)	-	-	(388)
At 31 March 2014	**-**	**12,812**	**4,046**	**4,052**	**1,916**	**-**	**22,826**
Carrying value							
At 1 April 2013	14,891	83,036	841	844	426	211	100,249
At 31 March 2014	**14,042**	**86,045**	**732**	**545**	**246**	**1,124**	**102,734**

Asset financing							
Owned assets	14,042	19,906	732	545	246	1,124	36,595
Enhancements to lease property	-	18,957	-	-	-	-	18,957
Finance leased assets	-	47,182	-	-	-	-	47,182
Total carrying value at 31 March 2014	**14,042**	**86,045**	**732**	**545**	**246**	**1,124**	**102,734**

Long leasehold assets within land have been re-categorised as operating leases leaving a carrying value and depreciation of £nil. (2012-13 £255,000 and £3,000)

Included within the disposals categorisation are assets that have been transferred to assets held for sale (see note 9).

Leasehold property assets comprise multi-purpose test centres procured under finance leases, capitalised expenditure for works undertaken on properties held under operating leases and the capital values of properties held under leases at less than market rents e.g. peppercorn rents.

PPE and intangible assets were revalued upwards by £4,300,000 (net) (2012-13 £(1,568,000)). Of this £2,269,000 (2012-13 £3,703,000) was credited to the Statement of Comprehensive Net Income and £2,031,000 (2012-13 £2,135,000) was taken to the revaluation reserve.

There has been a single in year re-classification of IT Equipment to IT Software which has resulted in a net transfer of £58,000 from property, plant and equipment to intangible assets (see note7).

2012-13	**Land**	**Buildings**	**IT Equipment**	**Plant and Machinery**	**Furniture and Fittings**	**Assets Under Construction**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or valuation							
At 1 April 2012	17,685	96,619	4,673	5,152	2,236	662	127,027
Additions	-	279	116	200	23	122	740
Revaluation	(2,659)	(3,265)	602	117	39	-	(5,166)
Impairment	(110)	(132)	-	-	-	-	(242)
Transfers	-	290	123	30	-	(573)	(130)
Disposals	-	(215)	(287)	(449)	(8)	-	(959)
At 31 March 2013	**14,916**	**93,576**	**5,227**	**5,050**	**2,290**	**211**	**121,270**
Depreciation							
At 1 April 2012	21	9,456	3,595	4,023	1441	-	18,536
Charge for the year	4	3,517	625	511	404	-	5,061
Revaluation	-	(2,252)	453	86	25	-	(1,688)
Impairment	-	(19)	-	-	-	-	(19)
Transfers	-	-	-	-	-	-	-
Disposals	-	(162)	(287)	(414)	(6)	-	(869)
At 31 March 2013	**25**	**10,540**	**4,386**	**4,206**	**1,864**	**-**	**21,021**
Carrying value							
At 1 April 2012	17,664	87,163	1,078	1,129	795	662	108,491
At 31 March 2013	**14,891**	**83,036**	**841**	**844**	**426**	**211**	**100,249**

Asset financing							
Owned assets	14,721	19,901	841	844	426	211	36,944
Enhancements to lease property	170	20,138	-	-	-	-	20,308
Finance leased assets	-	42,997	-	-	-	-	42,997
Total carrying value at 31 March 2013	**14,891**	**83,036**	**841**	**844**	**426**	**211**	**100,249**

Note 7 – Intangible assets

2013-14	IT Software £000	Assets Under Construction £000	Total £000
Cost or valuation			
At 1 April 2013	36,150	655	36,805
Additions	78	-	78
Revaluation	(3,053)	-	(3,053)
Transfers	492	(421)	71
Disposals	-	-	-
At 31 March 2014	**33,667**	**234**	**33,901**
Amortisation			
At 1 April 2013	22,077	-	22,077
Charge for the year	4,315	-	4,315
Revaluation	(1,859)	-	(1,859)
Transfers	13	-	13
Disposals	-	-	-
At 31 March 2014	**24,546**	**-**	**24,546**
Carrying value			
At 1 April 2013	14,073	655	14,728
At 31 March 2014	**9,121**	**234**	**9,355**

Analysis of IT software:	Remaining Life At 31 March 2014	Net book value At 31 March 2014
Certificate of Professional Competence	2 years	3,602
Internet Booking System	6 years	1,687
Testing and Registration System	2 years	1,696
Others	0 to 7 years	2,370
Total		**9,355**

Intangible assets comprise software licences and IT system developments. These assets are re-valued using appropriate published indices. The impact of this revaluation is covered in note 6.

2012-13	IT Software	Assets Under Construction	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2012	29,216	1,545	30,761
Additions	1,316	596	1,912
Revaluation	4,002	-	4,002
Transfers	1,616	(1,486)	130
Disposals	-	-	-
At 31 March 2013	**36,150**	**655**	**36,805**
Amortisation			
At 1 April 2012	15,329	-	15,329
Charge for the year	4,657	-	4,657
Revaluation	2,091	-	2,091
Transfers	-	-	-
Disposals	-	-	-
At 31 March 2013	**22,077**	-	**22,077**
Carrying value			
At 1 April 2012	13,887	1,545	15,432
At 31 March 2013	**14,073**	**655**	**14,728**

Analysis of IT software:	Remaining Life At 31 March 2011	Net book value At 31 March 2011
Certificate of Professional Competence	3 years	6,724
Internet Booking System	7 years	2,137
Testing and Registration System	3 years	2,258
Others	0 to 7 years	3,609
Total		**14,728**

Note 8 – Trade and other receivables

Amounts due within one year	31 March 2014 £000	31 March 2013 £000
Trade receivables	12,402	1,672
Interest receivable	17	9
Recoverable VAT	2,207	1,873
Other receivables	1,216	2,161
Prepayments	2,243	2,075
Total	**18,085**	**7,790**

Included within the above are amounts due from other Government bodies of:

Department for Transport and Agencies	11,932	3,382
HM Revenue and Customs (HMRC)	2,275	1,873
Department for Environment, Food and Rural Affairs (DEFRA)	130	116
Department for Work and Pensions (DWP)	70	-
Ministry Of Defence (MOD)	8	6
	14,415	**5,377**

There are no amounts due after more than one year.

Credit Risk – Credit risk is the risk of suffering financial loss, should any of the agency's customers or counterparties fail to fulfil their contractual obligations to the agency. Some of the agency's customers and counterparties are other public sector organisations. There is no credit risk from these organisations. For those customers and counterparties that are not public sector organisations, the agency has policies and procedures in place to ensure credit risk is kept to a minimum. The majority of the agency's customers pay in advance of a service being supplied.

Exposure to Credit Risk – The carrying amount of the financial assets £95,916,000 (31 March 2013 £76,359,000) represents the maximum credit exposure.

Note 9 – Assets held for sale

	31 March 2014 £000	31 March 2013 £000
At 1 April 2013	229	263
Disposals of assets	(4)	(36)
Assets identified in year as non-operational	21	2
At 31 March 2014	**246**	**229**

Note 10 – Trade and other payables

Amounts payable within one year	**31 March 2014 £000**	**31 March 2013 £000**
Deferred income	29,234	23,193
Current instalment on Secretary of State loans (see note 12)	21,810	14,570
Accruals	19,461	15,254
Current obligation under finance leases	5,421	5,327
Other payables	3,678	3,445
Trade payables	332	29
Total	**79,936**	**61,818**

Included within the above are amounts due to other Government bodies of:

Department for Transport (DfT) and Agencies	28,215	16,051
HM Revenue and Customs (HMRC)	920	34
National Audit Office (NAO)	70	70
Department of Work and Pensions (DWP)	-	43
	29,205	**16,198**

Amounts payable after more than one year

	31 March 2014 £000	31 March 2013 £000
Obligation under finance leases	45,094	44,122
Deferred income	3,688	3,877
Other payables	597	650
Total	**49,379**	**48,649**

There are loans payable in more than one year owing to the Department for Transport. These are disclosed in Taxpayers' Equity in the Statement of financial position and detailed in Note 12 on page 65.

Note 11 – Provisions

2013-14	Dilapidations £000	Restructuring £000	Legal claims £000	Rent £000	Total £000
At 1 April 2013	259	2,141	931	-	3,331
Provided in the year	8	5	134	72	219
Provisions not required written back	(207)	(110)	(490)	-	(807)
Utilised in year	(52)	(596)	(282)	-	(930)
Borrowing costs (unwinding of discount)	-	26	-	-	26
At 31 March 2014	**8**	**1,466**	**293**	**72**	**1,839**
Analysis of expected timing of discounted flows					
– Not later than one year	8	532	293	72	905
– Later than one year and not later than five years	-	934	-	-	934
At 31 March 2014	**8**	**1,466**	**293**	**72**	**1,839**

2012-13	Dilapidations £000	Restructuring £000	Legal claims £000	Rent £000	Total £000
At 1 April 2012	298	1,806	831	-	2,935
Provided in the year	155	1,039	735	-	1,929
Provisions not required written back	(133)	(61)	(348)	-	(542)
Utilised in year	(61)	(632)	(287)	-	(980)
Borrowing costs (unwinding of discount)	-	(11)	-	-	(11)
At 31 March 2013	**259**	**2,141**	**931**	**-**	**3,331**
Analysis of expected timing of discounted flows					
– Not later than one year	259	638	931	-	1,828
– Later than one year and not later than five years	-	1,503	-	-	1,503
– Later than five years	-	-	-	-	-
At 31 March 2013	**259**	**2,141**	**931**	**-**	**3,331**

Note 12 – Loans from the Secretary of State

DSA has received loans from the Department for Transport (DfT) which are repayable by instalments and bear interest. They are comprised of the following fixed interest loans:

	31 March 2014 £000	31 March 2013 £000
£10.0m loan issued in 2003-04, repayable over 15 years with interest at 4.9%	3,046	3,723
£5.0m loan issued in 2005-06, repayable over 25 years with interest at 4.5%	3,200	3,400
£5.0m loan issued in 2005-06, repayable over 25 years with interest at 4.45%*	3,400	3,600
£15.0m loan issued in 2006-07, repayable over 25 years with interest at 4.90%*	10,800	11,400
£5.0m loan issued in 2007-08, repayable over 15 years with interest at 4.54%	3,000	3,333
£15.3m loan issued in 2007-08, repayable over 25 years with interest at 4.71%	-	12,240
£8.0m loan issued in 2008-09, repayable over 25 years with interest at 3.69%*	6,400	6,720
Total Loans	**29,846**	**44,416**

* Loans repaid in full after the year end, in April 2014.

Amounts repayable:		
– Current loan instalment (see note 10)	21,810	14,570
– In one to two years	1,210	2,330
– In two to five years	3,293	6,991
– After five years	3,533	20,525
Amounts due after more than one year	8,036	29,846
Total Loans	**29,846**	**44,416**

Note 13 – Commitments under leases

Operating leases	**31 March 2014**			31 March 2013		
	Land and Buildings £000	**Other £000**	**Total £000**	Land and Buildings £000	Other £000	Total £000
Minimum lease payments						
Not later than one year	7,117	172	**7,289**	6,384	76	**6,460**
Later than one year and not later than five years	21,166	309	**21,475**	20,886	22	**20,908**
Later than five years	89,607	-	**89,607**	94,427	-	**94,427**
Total	**117,890**	**481**	**118,371**	**121,697**	**98**	**121,795**

Operating leases relate to all payments due under commercial leases, intra-government agreements.

Commercial lease arrangements for land and buildings are normally on standard terms and conditions typically over 10 to 15 years with rent reviews and break clauses every five years. These leases are mainly for standard driving test centres. In addition, the main administrative centres in Nottingham and Newcastle are occupied on commercial leases with a total commitment of £1,230,830 per annum. Operating leases also include the land element of leases for multi-purpose test centres (see finance lease comments below).

There are no material current sub-lease arrangements in place regarding properties occupied by DSA under operating leases.

Non land and building lease arrangements are predominantly commercially leased vehicles on standard terms and conditions over a four year period with no transfer of ownership at the end of the period.

	Buildings	
Payments under finance leases	**31 March 2014**	**31 March 2013**
	£000	**£000**
Minimum lease payments		
– Not later than one year	5,626	5,435
– Later than one year and not later than five years	23,985	23,358
– Later than five years	271,319	277,572
Total payment obligations under finance leases	300,930	306,365
– Less interest element	(254,628)	(255,611)
Total present value of obligations under finance leases	**46,302**	**50,754**
Present value of lease payments		
– Not later than one year	5,626	5,435
– Later than one year and not later than five years	14,230	15,855
– Later than five years	26,446	29,464
Total present value of obligations under finance leases	**46,302**	**50,754**
Carrying value of finance leases included within property, plant and equipment	**47,182**	**44,495**
Receipts expected from sub-leases	**4,746**	**5,073**

The finance leases relate to the buildings element of longer term lease arrangements for multi-purpose test centres which are specialised operational sites with off-road manoeuvre areas for motorcycle testing. The leases are typically over a 40 year period with lease breaks at around 15 and 25 years; rents payable are subject to review periods of five years based on market rates or retail price index calculations. There is no transfer of ownership at the end of the lease and it is considered that there would be minimal residual value of the sites.

Note 14 – Capital commitments

	31 March 2014	**31 March 2013**
	£000	**£000**
Contracted:		
Within one year	371	214
Total capital commitments	**371**	**214**

Capital commitments relate mainly to ongoing development of IT software.

Note 15 – Analysis of changes in net funds

	At 31 March 2013 £000	Cashflows £000	Other Movements £000	At 31 March 2014 £000
Cash balances at Government Banking Service	23,340	8,585	45,000	**76,925**
Deposits with National Loans Fund	45,000	-	(45,000)	**-**
Cash and cash equivalents	**68,340**	**8,585**	**-**	**76,925**
Loans due within one year	(14,570)	14,570	(21,810)	**(21,810)**
Loans due after one year	(29,846)	-	21,810	**(8,036)**
Total loans from the Secretary of State	**(44,416)**	**14,570**	**-**	**(29,846)**
Net funds	**23,924**	**23,155**	**-**	**47,079**

The book values of net funds are considered to be fair values.

Liquidity Risk – The agency is not exposed to a liquidity risk as further borrowing requirements, should they arise, will be met by loans from the Department for Transport.

The level of capital expenditure payments are managed to be met from available cash balances.

Interest Rate Risk – The interest-bearing loans represents 39% of total Taxpayers' Equity. The interest rates are fixed at the time of the loan issue and are identified in note 12. Short-term risk arises from holding received loans temporarily as cash prior to utilisation, this risk is small due to the stability of interest rates and is not managed. Cash not immediately required is invested with the National Loans Fund. The rate of interest earned through these investments and on cash balances varies and will offset that short-term risk from holding loans temporarily as cash to some extent.

Foreign Exchange Rate Risk – Financial assets and liabilities are generated by day-to-day operational activities and the agency has limited exposure to foreign exchange.

Note 16 – Analysis of cashflows

	Note	2013-14 £000	2012-13 £000
Adjustments for non-cash transactions			
Net depreciation in year of tangible non-current assets	6	4,161	5,061
Net amortisation in year of intangible non-current assets	7	4,315	4,657
(Surplus) / Loss on sale of fixed asset	SoCI	(152)	17
Net provision provided in year	11	(588)	1,387
Unwinding of discounts	11	(26)	11
Adjustments for non-cash transactions		**7,710**	**11,133**
Increase/(decrease) in trade payables			
Movement on payables less than one year	10	18,118	6,549
Less change in current loan instalments	10	(7,240)	(5,832)
Accrual relating to year-end dividend	5	(1,264)	(786)
Increase in trade payables		**9,614**	**(69)**

Note 17 - Pension commitments

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the DSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. The Government Actuary's Department (GAD) are currently working on the valuation as at 31 March 12 but this is not yet available for release. Details can be found at (http://www.civilservice.gov.uk/pensions/governance-and-rules/actuarial-review).

For 2013-14, employers' contributions of £10,778,000 were payable to the PCSPS (2012-13: £11,046,000) at one of four rates in the range 16.7 to 25.8% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013-14 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. Employers contributions of £67,000 were paid to one or more of a panel of two appointed stakeholder pension providers (2012-13: £69,000). Employer contributions are age related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition employer contributions of 0.8% of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil (2012-13:£nil). Contributions prepaid at that date were £nil (2012-13:£nil).

Note 18 - Contingent liabilities

There are a number of legal and contractual claims or potential claims against the agency, the outcome of which cannot at present be reliably measured and / or the ability to assess the probability of the outcome. Full provision is made in the financial statements when the extent of the liability is known with reasonable certainty (see note 11).

Note 19 - Related party transactions

The DSA is an executive agency of the Department for Transport (DfT). During the year the DSA has had a significant number of material transactions with DfT, and with other entities for which DfT is regarded as the parent Department, namely the Vehicle and Operator Services Agency (VOSA) and the Driver and Vehicle Licensing Agency (DVLA).

Whilst the announcement of the merger between VOSA and DSA has meant the two agencies have been working towards merging into a single entity, in practice the agencies have needed to manage their finances as separate legally constituted trading funds. This will continue until a new legal entity is established, which is expected to be on 1st April 2015. In order to ensure the regularity of payments between the two organisations, joint costs have been shared equally such as costs of merger or costs of the Transitional Board. Such joint costs have been passed on at an arm's-length basis with no management charges or overheads attributable. All other income and costs have been accounted for in the respective agency to which they relate. Total sales for 2013-14 to VOSA were £120,000. Total purchases from VOSA for 2013-14 was £1,600,000. The amount due from VOSA as at 31 March 2014 is £38,000. The amount due to VOSA as at 31 March 2014 is £384,000.

Since 1st April 2007 DSA has used the Department for Transport Shared Service Centre for transactional processing in the HR and Finance functions for which DSA pays a monthly service charge. These charges are recognised in the accounts as they are incurred. DSA bears no liability and has no responsibility for the assets and liabilities of the Shared Service Centre and the Shared Service Centre transferred into private ownership during the year becoming Shared Service arvato.

In addition, the DSA has had a significant number of material transactions with other Government Departments and other central Government bodies including HMRC, Department for Environment Food & Rural Affairs, Department for Work and Pensions and the Valuation Office Agency.

Balances with related parties are disclosed in notes 8 and 10.

During the year, none of the Executive / Transitional Board or members of the key management staff or other related parties has undertaken any material transactions with the Driving Standards Agency (2012-13: Nil).

Note 20 - Losses and special payments

Payments of £3,125,682 (2012-13: £1,062,316) were made during the year, in respect of 2,421 cases (2012-13: 3,585).

These ex gratia payments arise mainly from compensations paid to test candidates to cover out of pocket expenses following the cancellation at short notice of tests by the agency.

Special payments over specific thresholds are required to be approved by HM Treasury. Individual special payments over £300,000 are required to be reported in the financial statements. During the year there were two such payments in excess of £300,000 (2012-13 one payment), which were made with HMT approval in settlement agreements that are subject to legally binding confidentiality agreements.

Note 21 - Financial performance

The Secretary of State for Transport has determined financial objectives for the Driving Standards Agency. These were confirmed by Treasury Minute dated 3 March 2010, the text of which is reproduced at Annex A.

The financial objectives for the agency are:

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 Statement of Comprehensive Income ; and

ii) to achieve an average annual return on capital employed (ROCE) on its activities of at least 3.5% of net assets employed over the period 1 April 2009 to 31 March 2014.

The net surplus in 2013-14 was £18,432,000 which, after adding back interest charges and dividends for the year of £9,328,000 represents a return on capital employed of 36.1% of the average ‘assets less liabilities’ of £76,865,000. The cumulative ROCE position to the end of the period to 31 March 2014 was 17.4%.

Note 22 - Post balance sheet events

The Chief Executive, as Accounting Officer, authorised these accounts for issue on 11 June 2014. There have been no events since the balance sheet date up to the date the accounts were authorised for issue which would affect the understanding of these accounts.

Five year financial summary

£000	2009-10	2010-11	2011-12	2012-13	2013-14
CAR					
Car test income	142,461	148,999	149,374	135,725	148,021
Car test cost	(150,482)	(148,394)	(139,155)	(134,676)	(134,481)
Total Surplus/(Deficit)	**(8,021)**	**605**	**10,219**	**1,049**	**13,540**
LGV/PCV					
LGV/PCV test income	11,571	11,348	10,988	11,052	12,020
LGV/PCV test cost	(10,126)	(9,082)	(8,552)	(10,936)	(10,855)
Surplus/(Deficit)	**1,445**	**2,266**	**2,436**	**116**	**1,165**
MOTORCYCLE					
Motorcycle test income	6,347	6,966	8,003	8,934	6,126
Motorcycle test cost	(9,413)	(8,887)	(10,631)	(10,916)	(7,204)
Surplus/(Deficit)	**(3,066)**	**(1,921)**	**(2,628)**	**(1,982)**	**(1,078)**
ADI					
ADI income	8,894	7,664	7,243	5,558	4,399
Related expenditure in obtaining ADI status	(7,938)	(6,748)	(7,232)	(6,258)	(5,167)
Surplus/(Deficit)	**956**	**916**	**11**	**(700)**	**(768)**
CPC					
CPC income	4,597	6,506	6,918	9,366	13,071
CPC expenditure	(4,560)	(5,949)	(5,227)	(6,874)	(8,389)
Surplus/(Deficit)	**37**	**557**	**1,691**	**2,492**	**4,682**
CBT					
CBT income	1,265	1,371	1,560	1,477	1,495
CBT expenditure	(1,208)	(1,935)	(1,440)	(1,710)	(1,414)
Surplus/(Deficit)	**57**	**(564)**	**120**	**(233)**	**81**
DDR					
DDR course application income	-	-	-	29	15
DDR expenditure	-	-	-	(254)	(182)
Surplus/(Deficit)	**-**	**-**	**-**	**(225)**	**(167)**
OTHER					
Total other income	9,792	7,637	9,397	10,762	15,494
Total other expenditure	(9,299)	(5,958)	(9,254)	(9,884)	(14,517)
Surplus/(Deficit)	**493**	**1,679**	**143**	**878**	**977**
TOTAL					
Income	184,927	190,491	193,483	182,903	200,641
Expenditure	(193,026)	(186,953)	(181,491)	(181,508)	(182,209)
Surplus/(Deficit)	**(8,099)**	**3,538**	**11,992**	**1,395**	**18,432**

DRIVING STANDARDS AGENCY TRADING FUND

TREASURY MINUTE DATED 3 MARCH 2010

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

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

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

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

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

2. A trading fund for the Driving Standards Agency was established on 1 April 1997 under the Driving Standards Agency Trading Fund Order 1997 (SI 1997 No. 873).

3. The Secretary of State for Transport, being the responsible Minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by the Driving Standards Agency Trading Fund for the five year period from 1 April 2009 to 31 March 2014 shall be to achieve a return, averaged over the period as a whole, of at least 3.5% 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. This Minute supersedes that dated 19 November 2004.

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

ISBN 978-1-4741-0597-2