Driver & Vehicle
Standards
Agency

Driving Standards Agency

# Annual Report and Accounts 2014-15

# Driving Standards Agency

## Annual Report and Accounts 2014-15

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as amended by the Government Trading Act 1990

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# Foreword

**From our Chief Executive, Alastair Peoples**

In 2013 the Transport Minister announced a decision to create a new single agency through the merging of the Driving Standards Agency (DSA) and the Vehicle and Operator Services Agency (VOSA) and in November announced that the new agency would be called Driver and Vehicle Standards Agency (DVSA). A formal launch of DVSA took place in April 2014.[1]

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

We now have a new directing board and, as of 1 April 2015, single trading fund status. However, as DSA and VOSA continued to operate as two separate financial trading funds through 2014-15 much of this report will focus on the performance of DSA-related activity with a separate report also being produced for VOSA's performance during 2014-15.

It's been a challenging year and we have been through a period of significant change but we've made great progress and achieved our aim of becoming one agency whilst still achieving high performance.

We have met or exceeded 15 of 18 key performance measures for DSA which is remarkable given the challenges of the merger. Particular success stories include:

- ceasing testing at 20 driving test centres
- increasing the move to digital services with a year end of 96.5% against a measure of 90%
- keeping 99.1% of practical tests and 99.7% of theory tests
- offering 96.5% of candidates a test at their preferred theory test centre within 2 weeks of their preferred date.

The 3 measures we unfortunately missed were:

- sickness absence – against the measure of 7 days we achieved 11.33 days
- carbon emissions – against the measure of -25% we achieved -21.2%
- car waiting times – against a measure of 6 weeks we achieved 6.5 weeks

Further information can be found in the performance summary on page 6.

In October 2014 we cut the cost of car theory tests to £25 – a reduction of £6. We will reduce the cost of this test again in October 2015 by a further £2.

Above all, we want to continue to put customers at the heart of everything we do, developing and improving our services to better meet their needs. We can't do this without a team of dedicated and professional staff and I want to thank you all for your continued hard work and commitment during what's been a very busy and challenging 12 months.

[1] The agencies have produced separate Annual Report and Accounts and so should be read in conjunction with each other. The VOSA report can be found at https://www.gov.uk/government/collections/vosa-annual-reports-and-accounts.

# Strategic Report*

## The Role of DSA

On 20 June 2013, the Transport Minister issued a statement to the House of Commons outlining changes to the role of the agency following the consultation on the Department for Transport's (DfT) Motoring Services strategy that ran from 13 December 2012 to 7 March 2013, as part of DfT's 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. 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 continued to be two separate trading funds until April 2015. DVSA then gained trading fund status under the provisions of the Government Trading Funds Act of 1973, amended. DVSA was formally launched on 2 April 2014.

### The role of DSA

DSA's role within the Department for Transport (DfT) includes contributing to saving lives, making roads safer, cutting crime and protecting the environment. Our main activities include:

- continuing 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
- continuing to review and develop our driving and riding tests and the way in which driving and riding instructors qualify and are assessed
- carrying 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
- meeting our obligations as a government agency providing services for central government, as part of the DfT family
- running 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
- supporting 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

### Going Concern and Risk

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 risks facing DSA and the new agency, DVSA, and those actions taken to mitigate the risks are addressed in the Governance Statement on pages 35 to 42.

### Aims

The delivery of driving tests to satisfy road safety requirements and to meet the specified minimum standards prescribed in European legislation (Third EU Directive on driver licensing 2006/126/EC) and implemented domestically by provisions contained in Part III of the Road Traffic Act and the Motor Vehicles (Driving Licences) Regulations 1999 (SI 1999/No 2864) [as amended]. Within this regulatory framework the DVSA is required to ensure that the minimum standards for driving tests

* The Annual Report 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 DSA's financial performance. Commentary on performance against DSA Secretary of State Key Performance Measures and other Key Performance Indicators can be found on pages 6 to 7 of the Annual Report.

are met by conducting annual quality assurance of tests delivered and that those delivering the tests i.e. Driving Examiners are suitably qualified and maintain that qualification by undertaking regular periodic training.

DVSA's statutory 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)

# Performance Summary

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

The achievement against our published business plan measures is below:

| Performance measures | Achievement | Outcome |
|---|---|---|
| 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 March 2015 | ✓ | 20 sites |
| Maintaining or improving the take-up of digital services for driver testing and training at 90% | ✓ | 96.5% |
| Offer 95% of candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date | ✓ | 96.5% |
| Keep 99.5% of all theory test appointments | ✓ | 99.7% |

| | | |
|---|---|---|
| Annual national average waiting time for car practical tests at no more than 6 weeks | × | 6.5 weeks |
| Keep 98% of practical test appointments which are in place three days prior to the driving test | ✓ | 99.1% |
| Retain Customer Service Excellence accreditation for former DSA by March 2015 | ✓ | Retained |
| **Agency finance**<br>Deliver financial performance of £1.8m in line with published plans<br>Deliver efficiency savings of £8.1m | ✓<br>✓ | £29.1 million<br>£8.7 million |
| **Workforce**<br>Full time equivalent (FTE) staff numbers as at 31 March 2015 will be no more than 2,200<br>Ensure the average number of working days lost due to sickness absence does not exceed 7 days | ✓<br>× | 2086.8<br>11.33 days |
| **Protecting the environment**<br>Cut carbon emissions by 31 March 2015 by 25% when compared with a 2009-10 baseline | × | 21.2% |
| **Customer complaints**<br>Reduce by 10% the number of complaints that are not resolved after the first response as compared with 2013-14 objectives at March 2015. To achieve this less than 9.72% of complaints should be escalated to the second stage. | ✓ | 6.46% of complaints escalated to second stage |
| Achieve payment of 80% of undisputed and settled invoices within five working days | ✓ | 98.7% |
| Complete 93% of Freedom of Information requests within twenty working days | ✓ | 97.7% |
| Provide answers to 100% of Parliamentary Questions by due date | ✓ | 100% |
| Respond to 100% of MPs' correspondence within seven working days | ✓ | 100% |
| Respond to 80% of official correspondence within twenty working days | ✓ | 100% |

# Testing and Inspection

Performance Measures

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

✓ successfully consolidated 20 driving test centres with GVTS

Offer 95% of candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date

✓ offered 96.5% of candidates an appointment

Keep 99.5% of theory test appointments

✓ kept 99.7% of theory test appointments

Annual national average waiting time will be no longer than six weeks for car practical tests

× waiting time for car practical test was 6.5 weeks on average nationally

Keep 98% of practical test appointments which are in place three days prior to the driving test

✓ kept 99.1% of practical test appointments

**Test demand and throughput**

**Testing activities**
2014-15 saw the high levels of demand which started in the latter half of 2013-14 and continued throughout the year.

**Cars**

| 000s | 2012-13 Actual | 2013-14 Actual | 2014-15 Plan | 2014-15 Actual |
|---|---|---|---|---|
| Theory test | | | | |
| Demand | 1,424 | 1,769 | 1,780 | 1,914 |
| Throughput | 1,365 | 1,685 | 1,780 | 1,859 |
| Practical Test | | | | |
| Demand | 1,486 | 1,523 | 1,520 | 1,603 |
| Throughput | 1,485 | 1,522 | 1,461 | 1,581 |

**Theory tests**
In 2014-15 demand for theory tests was 8.2% higher than the year before and over 2 million of all test types were successfully delivered. A national service was maintained with 11 theory test centres moving to new locations. During the relocations there were some challenges to service levels for theory test customers, but we worked with our supplier, Pearson Vue, and were able to ensure that performance measures were achieved with over 95% of candidates finding an appointment at their preferred theory test centre within 2 weeks of their preferred date and keeping 99.7% of all theory test appointments.

We helped to reduce the cost of motoring by successfully implementing a lower theory test fee in October 2014 from £31 to £26, with a further £2 reduction in October 2015.

**Computer generated images/Hazard perception tests**
The hazard perception part of the driving theory test has been recognised with 3 road safety awards in 2014. The awards recognised the hazard perception test's role in reducing the number of crashes on our roads. The awards won are:

- Prince Michael International Road Safety Award 2014
- Prince Michael International Road Safety Premier Award 2014
- John Smart Road Safety award at the Chartered Institution of Highways and Transportation (CIHT) Awards 2014.

The old filmed clips in the hazard perception part of the theory test were successfully modernised when they were replaced by new computer-generated imagery (CGI) clips from 12 January 2015. This major improvement was achieved in partnership with our theory test contractor, Pearson Vue.

**Practical tests**
Overall demand for car practical tests was up 5.2% on the previous year, and was 5.5% above plan. The final quarter of the year demand was up 5.8% (23,500) compared with the same period a year ago.

The number of first time applicants at the end of the year was up 6.5% (45,000) compared to 2013-14. Demand was strongest from the 20-25 year age group. During 2014-15 compared to 2013-14 demand from this group was up by 9.5% (36,500), whilst other ages combined went up by 4.7% (54,000).

**Motorcycles**

| 000s | 2012-13 Actual | 2013-14 Actual | 2014-15 Plan | 2014-15 Actual |
|---|---|---|---|---|
| Theory test | | | | |
| Demand | 83 | 65 | 66 | 75 |
| Throughput | 80 | 58 | 66 | 70 |
| Module 1 | | | | |
| Demand | 71 | 52 | 59 | 59 |
| Throughput | 70 | 49 | 59 | 55 |
| Module 2 | | | | |
| Demand | 69 | 48 | 56 | 55 |
| Throughput | 69 | 46 | 56 | 52 |

Demand for module 1 tests during 2014-15 was up by 14% (7,000) compared to 2013-14. Demand for the final quarter of 2014-15 was 10.1% up (1,300) on the same period a year ago. Demand for module 2 tests during 2014-15 was up by 15.7% (7,500) compared to 2013-14.

**Vocational**

| 000s | 2012-13 Actual | 2013-14 Actual | 2014-15 Plan | 2014-15 Actual |
|---|---|---|---|---|
| Theory test – LGV/PCV | | | | |
| Demand | 41 | 49 | 55 | 60 |
| Throughput | 37 | 44 | 55 | 54 |
| Practical Test – Lorry (LGV)/bus (PCV)/car and trailer (B+E) | | | | |
| Demand | 75 | 80 | 85 | 92 |
| Throughput | 73 | 77 | 84 | 86 |

Demand for vocational tests continues to increase and although we had planned for an increase, demand was 12.2% above our planned volume and 15.8% (12,500) higher than last year. Demand in March was up by 34.3% (2,500) on March last year.

The pass rate for 2014-15 was 1.2 percentage points up on March last year.

During 2014-15, car and trailer (B+E) demand was up 19.2% (3,600), large goods vehicle (LGV) up 17.9% (9,200) and passenger carrying vehicle (PCV) down -5.5% (-500) compared to last year.

In 2014-15 PCV accounts for 10% of vocational tests, LGV 65.9% and B+E 24.1%.

**Estates rationalisation**
After Ministerial approval the DSA achieved its measure to rationalise its estate by consolidating driving tests and lorry, bus and coach vehicle testing at 20 sites. Ministerial approval was given to consolidate the 20 sites and testing transferred at all sites to replacement ones prior to 31 March 2015. The DSA trialled dual testing at one of the consolidating sites and delivered testing at both the closing site and the new site, to try and minimise the impact on customers. The ADI industry was consulted prior to the dual testing and only the ADI's operating from one site wanted to try dual testing. Therefore dual running was delivered from this site. The relocated centres were redecorated, with further works being delivered in 2015-16.

**Practical Driving Test Review**

We have worked in partnership with an Advisory Group of driver training stakeholders and road safety experts to review the content of the car practical driving test. A number of changes were proposed to make the test experience closer to real life driving. These included more relevant manoeuvres; new ways to deliver the "show me tell me" requirements and the use of satellite navigation in an extended independent driving section.

We awarded a research contract to Halcrow TRL in November 2014 to conduct a trial of the proposed changes in order to validate their road safety benefits. The trial is taking place at 20 test centres across the country using volunteer ADIs and learners.

**Compulsory basic training (CBT) for motorcyclists**

DSA have continued to quality assure the standard of instructors conducting CBT assessments on the general public. Our CBT monitors offer guidance and support to the industry.

We successfully achieved our plan to conduct 600 standards checks during 2014-15 by achieving 606; 86% of instructors seen were satisfactory.

**CBT review**

Working closely with colleagues in the DfT we successfully completed the preliminary research to gain the views of riders and trainers involved in CBT. Their views and opinions, coupled with some really positive and constructive workshops with motorcycle stakeholders, have helped us develop proposals for improving motorcycle training. We launched our public consultation on these proposals on 10 March with the closing date of 21 April.

**Language support**

Acting upon the results of a Public Consultation and Ministerial requirements, DSA introduced changes to the language support available for candidates taking theory and practical driving tests from 7 April 2014. From that date voiceovers, in languages other than English and Welsh were no longer made available for candidates taking driving theory tests. Interpreters were no longer allowed for either theory or practical tests. The withdrawal of these services aims to address concerns about road safety, enhance social cohesion, reduce fraud and reduce costs.

# Enforcement

**Fraud and integrity**

DSA's fraud and integrity team continued to tackle instances of suspected impersonation and Bluetooth fraud at theory and car 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/fraud attempts. During this year we received 829 reports of suspected impersonations, which related to 1625 suspect theory and/or car practical driving tests, some of which are still under investigation. In addition, during 2014-15:

- 269 individuals were arrested by the Police as a result of our investigations. 143 individuals received a police caution
- 69 were convicted of offences in the courts. Of these 69 individuals, 46 received prison terms. We also revoked 249 driving licences.
- we investigated 77 reported cases of illegal driving instruction and 8 individuals were arrested by the Police. During the year, 2 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".

**Internal Fraud and bribery**
DSA takes fraud and bribery very seriously. All cases of actual or suspected internal 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.

# Licensing & Authorisation

**ADI standards check**
In April 2014 we updated the test of continued ability and fitness that all Approved Driving Instructors (ADI) are required to take. The revised assessment is aligned with the requirements for instructors set out in the National Driver and Rider Training Standards, so the name was changed to standards check to reflect this.

The standards check differs from the old check test in that rather than being fault based it looks for evidence of competence. The assessment covers 17 competences under three main areas: lesson planning, risk management and teaching and learning strategies.

At the same time we introduced a new grading structure for ADIs. The examiner will award a mark from 0 to 3 for each of the 17 competences and the total score out of 51 determines whether or not the ADI has demonstrated that they continue to meet the minimum standard. To pass and be awarded grade B the ADI must score at least 60% and those who attain over 85% of the available marks are awarded grade A.

The new assessment also saw the end of examiners playing a role of the pupil during the assessment. The provision for role play was removed from the regulations on 1 October 2014.

# Advice, Information and Education

**Modernising Driver Training (MDT)**
In July 2014 we published the response to the MDT consultation ‘Modernising Driver Training: reform of the regulatory framework for Approved Driving Instructors’. The main decisions included the enhancement of the ADI qualification process by replacing the existing test of instructional ability (ADI part 3) with one similar to the standards check, which includes the facility for ADIs to choose a time and date that suits them and their pupil. Both items have been progressed with input and support from key ADI stakeholders.

**Drink Drive Rehabilitation (DDR)**
Following the introduction of new approval arrangements for DDR courses in 2013, DSA has continued to work with stakeholders, in order to embed, improve and develop the DDR schemes. Following the initial 17 DDR course approvals a further course has been approved in Scotland. Offenders and courts continue to have a suitable range of courses from which to choose, providing national coverage.

We have developed the on-line facility ‘Find your nearest DDR course’ in response to input and guidance from approved course providers and HM Courts and Tribunals Services, to provide accurate, up to date information. We have also published statistical information on GOV.UK indicating the number of referrals to DDR courses and the number of course completions, by specific geographic areas. This is updated quarterly and provides a useful source of information to stakeholders.

All initial centre audits were completed on schedule. The findings were broadly encouraging and any follow up actions required are being monitored. This process also informs risk assessment as we initiate course audits focused on course content, delivery and course trainers.

The agency has worked closely with the Welsh Assembly Government, who has responsibility for the DDR schemes in Wales. There is reciprocation between the jurisdictions in England, Scotland and Wales, to enable offenders to undertake a DDR course locally if required and thus encourage uptake.

**Continued engagement with international counterparts**
During the past year the DSA has continued to engage effectively with our European counterparts to establish common ground for negotiating changes in European Union (EU) legislation. Working with our EU counterparts we have identified areas of EU legislation that could be improved to the benefit of UK stakeholders under the EU Refit programme and contributed to the EU consultation on the review of Driver Certificate of Professional Competence (CPC). The European Commission is now considering our proposals.

**Driver CPC**
**Periodic training - Vulnerable Road Users**
The Minister requested that the DSA, the competent authority responsible for the approval of Driver CPC training centres and periodic training courses, ensures that periodic training specifically takes account of other road users, particularly those that are vulnerable. To comply with this request, we agreed that all courses seeking approval from April 2015 should include appropriate reference to vulnerable road user safety training where possible.

We consulted and worked closely with the industry to gain buy-in and support. We published messages to encourage approved Driver CPC centres to include road safety training as part of the courses submitted to DSA for approval and also to encourage drivers to undertake road safety training as part of their 35 hours periodic training. Response from the industry was positive and demonstrated support and engagement. This was implemented from 1 April 2015 and we will monitor uptake.

**Audit and compliance work**
We have promoted and monitored operator and driver compliance through monitoring the standard and appropriateness of Driver CPC training. Our quality assurance and compliance programme continues to monitor those centres actively delivering periodic training with a focus upon those of higher risk. DSA and Joint Approval Unit for Periodic Training (JAUPT) audited over 350 centres and over 1,000 Driver CPC periodic training courses last year.

**Uptake of CPC**
September 2014 was the end of “acquired rights” for drivers of heavy good vehicles. During this time we managed an unprecedented volume of enquiries around exemptions and requirements. As predicted the numbers of hours logged and the number of Driver Qualification Cards (DQC) issued spiked sharply in 2014-15. In the period leading up to the September 2014 implementation date approved periodic training providers experienced an unprecedented peak in demand with 3,687,790 periodic training hours uploaded in June/July/August 2014.

Encouragingly the number of drivers acquiring a DQC via completion of the initial qualification has increased by almost a third from 2013-14 to 2014-15. During the year we recorded 8,477,843 hours of periodic training and issued almost 360,000 Driver Qualification Cards to acquired rights drivers and over 30,000 to new drivers.

# Civil Service Reform

**Shared Services**
Work continues to migrate to a new single DVSA Shared Services platform to support finance and HR back office processes. The Shared Service Centre is based in Swansea and is managed by arvato Bertelsmann. In parallel, a number of processes are being reviewed that support both the migration to new Shared Services and the post-merger integration work.

The network of volunteer Change Makers originally recruited to support the shared services project, has now been expanded to over 70 people who are involved in a number of change initiatives across the agency. Part of their role is to smooth the impact of change on local teams through supporting colleagues, working to embed the change after project closure and helping with the delivery of communications. The ongoing development, and the personal development of the individual Change Makers, was recognised through a Civil Service Awards nomination in 2014 and through adoption of the scheme by other DfT agencies.

# Digital

**Performance Measures**

Maintain or improve the take-up of digital services for driver testing and training at 90% or more by March 2015

✓ improved take-up of digital services for driving test and training at 96.5%

**Information technology modernisation**
During 2014-15 we have been working on modernising our IT capabilities for the organisation and work is progressing on implementing a single payments service (CPMS) that will be shared by all of our payment-taking applications over time. This will bring a simpler, standardised and modernised payments system for the organisation.

**Modern tablet solutions**
We continue to undertake preparatory work to deliver mobile devices for driving examiners. The project will provide driving examiners with tablets. The tablets will include an eJournal application, which will provide driving examiners with details of the tests they need to conduct, and an electronic test pass certificate (eDL25) application, which will enable them to record results of tests as they take place. The project will also deliver the changes to the core ICT systems required to download journals to tablets and to upload completed eDL25 forms from tablets.

**Social media**
DSA has continued to utilise social media platforms such as Facebook and Twitter to engage with customers and stakeholders during the course of the year.

These customer interactions include:

- promoting recruitment
- always use GOV.UK to book your driving test (theory and practical)
- how to renew your approved driving instructor (ADI) registration online

Up to the end of March 2015 we have:

- approximately 80,000 followers on Twitter
- approximately 65,000 Facebook fans

- 2,606 subscribers on YouTube, 350,661 lifetime views and 614,321 estimated minutes watched
- 574 followers to LinkedIn.

# Workforce Management

**Performance Measure**
Full time equivalent (FTE) staff numbers as at 31 March 2015 will be no more than 2,200

✓ FTE numbers as at 31 March 2015 was 2086.8

Ensure the average number of working days lost due to sickness absence does not exceed 7 days

× average number of days lost due to sickness absence was 11.33 days

Retain Customer Service Excellence Accreditation for former DSA by 31 March 2015

✓ retained our Customer Service Excellence Award in March 2015

**Customer service excellence**
The government wants services for all that are efficient, effective, excellent, equitable and empowering – with the citizen always and everywhere at the heart of service provision. With this in mind, following a visit by the independent assessor, in March 2015 we retained our Customer Service Excellence accreditation. This means that our delivery, timeliness, information, professionalism and staff attitudes have all been tested against and met this standard.

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

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

| Full-time equivalents | April 2014 Plan | April 2014 Actual | March 2015 Plan | March 2015 Actual |
|---|---|---|---|---|
| Examiners | 1,704 | 1,644 | 1537 | 1492 |
| Administrative staff | 496 | 476 | 663 | 595 |
| **Total** | **2,200** | **2,120** | **2,200** | **2,087** |

Throughout the year the DSA have again been focusing on getting the right people in the right place with the right skills at the right time. Recruitment has been targeted at areas where there are high waiting times.
We have achieved this measure through careful control of workforce allocations, and by realising efficiency savings where posts could be closed and workloads dispersed.

**Sickness absence**
We have continued to focus on initiatives to improve attendance including:
- more transparent management reports
- better Occupational Health management, including more timely and targeted referrals
- increased use of DfT Casework Advisor Services

In addition to the above both short and long term action plans designed to address the issues have been discussed and agreed in principle by our Directing Board.

**DVSA talent management/succession planning**
Following the merger of DSA and VOSA, we have built on last year's work to develop skill sets to produce a Talent Management and Succession Planning approach for DVSA. This has been very much at the forefront of thinking as we consider where recruitment action may be necessary during the implementation of the new integrated Organisation Design.

**Equality and Diversity**
We are 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.

We value having a diverse workforce and are committed to recruiting, retaining, and promoting the best people and we operate a number of staff network groups: race, disability, sexual orientation, and age, to help promote the diversity and inclusion agenda within the agency, acting as a sounding board on these issues.

Our 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.

**Continuous Improvement (CI)**
A new approach to Continuous Improvement (CI) was introduced within DVSA in 2014-15, giving teams the knowledge and tools to undertake continuous improvement work. This has been trialled with teams across the organisation and a number of them have now achieved the internal CI accreditation with others well on their way to achieving the standard.

## Delivering our plan

**Performance Measures**

Deliver financial performance of £1.8m surplus in line with published plans

✓ achieved £29.1m surplus

Deliver efficiency savings of £8.1m

✓ achieved £8.7m efficiency savings

**Financial Performance**
DSA met its target of delivering a surplus of £1.8 million by achieving £29.1m. Please see financial review below for further information.

**Efficiency**
DSA met the efficiency measure by delivering £8.7 million of efficiency savings. Initiatives to secure benefits included:

- renegotiation of the theory test contract to reduce the cost per testing minute – this resulted in savings of £7.9m
- savings from the review of area and branch structures, and the release or reorganisation of resources - £0.6m
- savings from other procurement / contracting exercises - £0.2m

# 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, indicated as having been determined by the responsible Minister to be desirable of achievement.

As a trading fund, DSA's activities are principally funded through fees and charges with some other operating income funding for fraud investigation activities provided from the Single Enforcement Budget administered by DfT (monitored through Service Level Agreements, acting on HM Treasury's behalf).

The long term financial objective of DSA for the five-year period from 1 April 2014 to 31 March 2019 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 in the first year, achieving over 40%. As the DSA was merged into the DVSA trading fund on 1 April 2015, this was the first and last year under the five year period. DVSA expects to be set the same five year objective.

## Financial strategy

Our long term financial strategy has been to:

- generate sufficient surplus to meet the Treasury return on capital employed target over the relevant period – achieved with a return of over 40%
- generate sufficient cash to fund investment – achieved with cash increase of £17.7 million in the year
- reduce the level of debt – achieved as the remaining £8 million of loans were repaid early, immediately after the year end.

A similar strategy will apply to the merged Trading Fund of the Driver and Vehicle Standards Agency.

## Financial results

The agency delivered strong financial performance in its final year as a result of continuing past cost reductions and increasing levels of activity.

**Income**
Income from statutory services was £194.1 million, £9.0 million higher than 2013-14 reflecting delivery of more tests than anticipated. Our forecasts, in line with almost all economic forecasters, did not anticipate the upturn in economic activity which resulted in increased demand for our services. This was particularly the case for theory test volume which increased by 11% from 2013-14 and increased practical test income which was up 5% on last year. Increased demand for the theory test is mainly due to the pass rate falling. Practical testing has benefited from relatively benign weather conditions over the winter season and rising demand.

The agency also saw continuing high levels of Driver Certificate of Professional Competence (Driver CPC) periodic training income following the ending of the first five year cycle deadline during the year. Overall this rising income and well contained costs have led to an exceptional surplus which is not expected to be repeated. The first five-year cycle of the Driver CPC scheme for bus and coach drivers ended in September 2013 and overall income in 2014-15 has been higher than expected at £15.8 million.

Income from other operating activities reduced significantly in the year following one-off benefits in 2013-14 from funding from the DfT for the migration of the shared service centre to the new Independent Shared Services Centre 1 platform (any unused funding was transferred to VOSA to implement the migration for the merged agency) and the financial impact of Modernising the Employment Contract implemented across the Department for Transport.

The higher levels of activity increased both the net operating surplus and the surplus for the year, to £38.7 million (£27.5 million in 2013-14) and £29.1 million (£18.4 million in 2013-14) respectively.

The Statement of Comprehensive Net Income shows the surplus has decreased by a further £0.9 million due to net downward asset revaluations compared with a £2.0 million upward revaluation last year.

**Expenditure**

Costs in the business have risen with increased activity but have been well contained and conscious cost control has contributed to the positive surplus. The efficiency savings target has been met, by achieving £8.7 million of in year savings. There has also been a significant amount of cost deferral on Information Technology as a result of delays in implementing the modernised IT programme.

Expenditure reduced by £8.4 million (5%) to £165.3 million despite the higher throughput. The results have benefited from the introduction of a new contract for the delivery of theory tests and improved efficiency of the examiner workforce, through higher utilisation and deployment of staff from low wait to higher waiting time test centres. The benefits of savings have been passed on to our customers in the form of a price reduction for the Theory Test with a further price reduction in the pipeline. Administration and other costs continued to be rigorously controlled and were more than 1% lower than 2013-14.

**Balance sheet**

Cash balances increased by £17.8 million over the year to £94.7 million, following reduced levels of capital expenditure and 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. Capital expenditure of £0.6 million during the year was funded by cash generated from the business. Loans of £21.8 million have been repaid in the year, and repayment of all remaining loans of £8 million was made shortly after the year end as part of preparing for the newly created Driver and Vehicle Standards Agency.

**Return on capital**

DSA was 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 2018-19. 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 payable the level of ROCE achieved is 39.5% after the first year of the objective period.

A dividend of £2,605,000 is due to DfT for the year (2013-14: £1,264,000).

### Social, community and environmental Issues (audited)

DSA has published its carbon management plan, which shows how we planned to drive down $CO_2$ equivalent emission by 25% from 2009-10 levels over five years. We have narrowly missed our five year target on $CO_2$ reduction but have achieved well on other areas such as waste reduction. For more detailed information about DSA's work in this area, and quantification of performance during the year, please see the sustainability report.

# Sustainability Report

**Performance Measures**

Cut carbon emissions from agency activities by 25% by 31 March 2015 when compared with a 2009/10 baseline

× achieved a reduction of 21.2% from agency activities

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 five years back to 2009-10 (the beginning of the Greening Government Commitments), and refers to the whole estate unless otherwise indicated.

## Overview and highlights

DSA believes that business should be conducted in a sustainable way that continuously improves environmental performance and prevents pollution.

The table below shows DSA's performance against the greening government commitment targets:

| Indicator | Baseline | Target | Achievement | |
|---|---|---|---|---|
| Greenhouse gas emissions ($tCO_2e$) | 6,096 | 4,572 | 4,802 | -21.2% |
| Number of domestic flights | 1,272 | 954 | 740 | -42% |
| Water use ($m^3$) | 33,845 | N/A | 27,116 | -20% |
| Water use ($m^3$ per FTE) | 9 | N/A | 5.6 | -38% |
| Waste arising (tonnes) | 115 | 86 | 65 | -43% |
| Paper (A4 reams) | 13,638 | N/A | 8,856 | -35% |

## Greenhouse gas emissions

The agency's Greening Government Commitments were to 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 2014-15 was 21.2% against baseline. This was disappointing considering all of the measures put in place to meet this target. The agency was on track to meet the target but has been adversely affected by a change in the electricity carbon conversion factor. The conversion factor has increased the reported carbon used for the same amount of electricity used due to a national use of more coal-fired power stations which are a more carbon intensive method of electricity production.

### Scope 1 (gas, LPG and owned fleet vehicles)

During 2014-15 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. Work was completed to improve the efficiency of the boilers at the largest gas consuming sites and subsequent staff awareness has taken place to minimise consumption further.

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 drive vehicles averaging 111g$CO_2$/km.

Carbon Reduction Commitment credits expenditure was £44,398.

There was no accredited offset purchase this year.

### Scope 2 (electricity – generation)

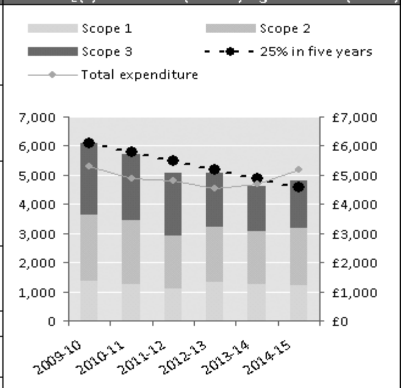
Electricity (combined scope 2 and scope 3) is the single largest source of greenhouse gas emissions for the agency. It accounts for over 40% of our carbon emissions and is therefore considered a significant aspect. The three large administrative sites are accountable for approximately 30% of electricity consumption for the estate and have been targeted with minor works and improvements to reduce consumption. Whilst electricity consumption has continued to reduce across the estate, carbon emissions from this source have increased due to an increase in coal used for electricity generation in 2012 – the year used in the methodology for the electricity generation carbon conversion factor calculation.

### Scope 3 (Air, Rail, Taxis, Hire cars, Greyfleet and electricity transmission and distribution)

2014-15 has seen a continued 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 2014-15, but there is evidence that emissions are starting to decouple from test demand. 2014-15 saw an increase in test demand whilst minimising cost and emissions.

| GREENHOUSE GAS EMISSIONS | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|---|---|
| Non-financial indicators ($tCO_2e$) | Natural gas, LPG and fleet vehicles (Scope 1) | 1,367 | 1,262 | 1,105 | 1,317 | 1,261 | 1,220 |
| | Electricity generation (Scope 2) | 2,254 | 2,166 | 1,822 | 1,909 | 1,812 | 1,940 |
| | Electricity transmission and distribution, Greyfleet, Hire, Taxi, Flights and Rail (Scope 3) | 178 | 174 | 156 | 151 | 155 | 170 |
| Target ($tCO_2e$) | 25% in five years | 6,096 | 5,791 | 5,486 | 5,181 | 4,877 | 4,572 |
| Financial indicators (£'s) | Energy gross expenditure | 1,050,437 | 747,000 | 750,253 | 743,809 | 806,629 | 828,495 |
| | Business travel gross expenditure | 4,235,195 | 4,131,486 | 4,069,484 | 3,810,999 | 3,886,134 | 4,358,090 |
| | Total expenditure | 5,285,632 | 4,878,486 | 4,819,737 | 4,554,808 | 4,692,763 | 5,186,585 |

Total $CO_2$(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

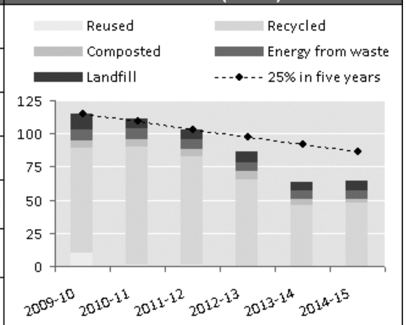
The agency's Greening Government Commitments were to reduce waste generated by 25% against 2009-10 by 2014-15.

Waste is monitored at all our large administrative sites. We have achieved a reduction of 43% and our recycling rate is 87%.

Waste is monitored at all our large administrative sites. We are 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 ARISING | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|---|---|
| Non financial indictors (tonnes) | Landfill | 11.5 | 7.4 | 7.5 | 8.3 | 6.8 | 7.5 |
| | Energy from waste | 8.5 | 7.8 | 7.0 | 6.2 | 6.7 | 6.7 |
| | Composted | 5.8 | 6.2 | 6.0 | 6.3 | 4.0 | 2.8 |
| | Recycled | 79.3 | 88.6 | 81.4 | 65.2 | 46.3 | 47.5 |
| | Reused | 9.8 | 1.2 | 1.1 | 0.4 | 0.0 | 0.0 |
| | Total waste arising | 114.9 | 111.2 | 102.9 | 86.4 | 63.9 | 64.5 |
| Target (tonnes) | 25% in five years | 114.9 | 109.1 | 103.4 | 97.6 | 91.9 | 86.2 |

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 majority is non-hazardous waste. We do not yet measure waste collected at test centres. However, we continue to investigate methods to collect and provide robust data. Figures do not cover waste from one-off disposals, such as refurbishments.

# Finite resources – Water

The agency's Greening Government Commitments were to reduce water consumption from the office and non-office estate and report on office water use against best practice benchmarks:

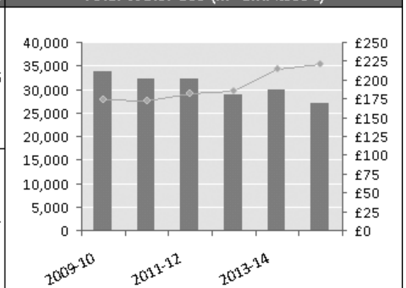
- >6m³ water consumption per FTE – poor practice
- 4m³ to 6m³ per FTE – good practice
- <4m³ per FTE – best practice

The water data covers 4,885 full time equivalents including an estimation of visitors. This places 33% of our sites in the 'best practice' category, 28% in the 'good practice' category and 39% in the 'poor practice' category.

In 2014-15 we achieved a 20% reduction, due to improved water management.

| FINITE RESOURCES - WATER | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|---|---|
| Non financial indicators ($m^3$) | Water use | 33,845 | 32,260 | 32,264 | 28,710 | 29,905 | 27,116 |
| Financial indicators (£) | Gross expenditure | 173,034 | 171,454 | 182,464 | 184,646 | 214,687 | 220,634 |

Total Water Use ($m^3$ and £000's)




**COMMENTS ON SCOPE**

The financial and non-financial data up to 2012/13 are based on supplied quantity alone. The change to include the gross cost (to include infrastructure charges) is the cause for increase in expenditure since 2013/14 .

# 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 2015-16 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

On 2nd April 2014, the Driving Standards Agency formally merged with the former Vehicle and Operator Services Agency (VOSA), operating as a single entity but with two separate trading funds. Legislation to implement a new, single replacement trading fund for the Driver and Vehicle Standards Agency (DVSA) came into effect on 1 April 2015, immediately after the year end. This new trading fund incorporates and continues the former DSA priority of promoting 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.

The new combined agency has established a range of targets for the first year of the new trading fund which are set out in the first year Business Plan. Further information can be found in the DVSA's business plan[2].The following table summarises the priorities of DVSA for 2015/16. It contains the 2015/16 DVSA Performance Measures agreed with our Minister. These measures address the performance of both former VOSA and former DSA.

| Category | Performance Measure | 2015 to 2016 Objective |
|---|---|---|
| **Make our services more convenient and easier to use** | | |
| **Reform** | As part of our strategy to reduce our overall estate, to have marketed and/or sold 30 premises | By 31 March 2016 |
| | Complete the switch-over of all MOT garages to the new MOT testing service | By 30 September 2015 |
| | Maintain or improve the take-up of digital services | 90% online |
| | Complete the practical test phase of the research on possible enhancements to the practical car driving test | By 31 January 2016 |
| **Operational** | Conduct 95% of lorry, bus and coach annual tests at non-DVSA sites | By 31 March 2016 |

2 https://www.gov.uk/government/publications/dvsa-business-plan-2015-to-2016

| | | |
|---|---|---|
| | Honour DVSA-confirmed reservations at ATFs | 95% |
| | Offer candidates an appointment at their preferred theory test centre within two weeks of their preferred date | 95% of candidates |
| | Theory test candidates are satisfied with the overall level of service they have received | 90% |
| | Annual average waiting time for car practical tests | No more than six weeks |
| | Maintain levels of satisfaction with the new MOT testing service | 87% satisfied |
| | Demonstrate the effectiveness of our targeting on 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 | 12 percentage points higher than random |
| | Develop and shadow run a new compliance measure in response to consultation | By 31 October 2015 |
| **Put the customer at the heart of everything we do** | | |
| | Retain Customer Service Excellence accreditation | By 31 March 2016 |
| **Drive down costs to the motorist** | | |
| **Finance and efficiency** | **Agency Finance**<br>Deliver financial performance of a break-even position for the year<br>Deliver efficiency savings | At 31 March 2016<br>£9.0m |
| | **Agency Workforce**<br>Full time equivalent (FTE) numbers as at 31 March 2016 will be no more than<br>Ensure the average number of working days lost due to sickness does not exceed | 4,470<br>7 days |
| **Meet all of our corporate responsibilities** | | |
| **Customer service** | **Customer complaints**<br>Reduce by 10% the number of complaints not resolved at first contact compared with 2014 to 2015 outturn | By 31 March 2016 |
| | **Prompt payment**<br>Payment of invoices within 5 working days | 80% |
| | **Freedom of information**<br>Provide a response within 20 working days | 93% |
| | **Parliamentary questions**<br>Provide a response within due date | 100% |
| | **Parliamentary correspondence**<br>Provide a response within 7 working days | 100% |

| | | |
|---|---|---|
| | **Official Correspondence**<br>Provide a response within 20 working days | 80% |

Please refer to our published 2015-16 Business Plan on our website for details of main trends and factors affecting future development of the organisation.

As we move into 2015-16 we will be working closely with arvato[3] 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.

**A. Peoples**
Chief Executive and Accounting Officer
10 June 2015

[3] http://www.arvato.co.uk/

# 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 2014-15. It should be read in conjunction with the governance statement, the remuneration report and the strategic report.

## Significant events since the year-end

The DVSA trading fund commenced on 1st April 2015 absorbing all of the assets and liabilities of DSA and VOSA. At the same time the DSA and VOSA trading funds ceased to exist.

## Future business developments

DVSA published its business plan for 2015-16[4] setting out plans to continue to develop services to meet the changing needs of customers. This includes plans to develop potential improvements to the driving test and make motorcycle training better for learner riders.

## Research & development

In 2015 research and trials were started to determine the need for any changes to the practical car driving test and to support any proposals for change with evidence. This work will continue into 2016 to evaluate the costs and benefits of any changes proposed before public consultation.

## Equal Opportunities and Diversity

**Gender equality**
DSA operates an Equality and Diversity Staff Network Group to help promote the diversity and inclusion agenda, acting as a sounding board on these issues. As at 31 March 2015, 2 of the 9 members of the DVSA Directing Board were female. For DSA, of the 38 senior managers in post, 10 were female. Of the headcount as at 31 March 2015 662 were female and 1589 were male.

**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 14.

**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

[4] https://www.gov.uk/government/publications/dvsa-business-plan-2015-to-2016

(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.

## Location of operations

DSA operated entirely as a business within Great Britain with its field of operations covering England, Scotland and Wales. Operations within Northern Ireland are outside the scope of DSA, with services being provided in Northern Ireland by the Driver & Vehicle Agency[5]which is part of the Government of Northern Ireland.

## Members of the Board

Full disclosure of the serving directors for 2014-15 is available in the Governance Statement on page 37 of this document.

Directors have declared that they hold no significant third party interests that may conflict with their board duties.

## Accounts Direction

The financial statements on pages 45 to 70 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) 04/14].

## 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 2014-15 accounts cost £70,000 (2013-14: £70,000). The NAO did not receive any remuneration for non-audit related work.

### Disclosure of audit information to DSA's auditors

As far as the Accounting Officer is aware:

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

## Pension liability

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

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

[5] http://www.nidirect.gov.uk/motoring

## 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.

## Employees

Please refer to the Workforce Management section of the Performance Summary on page 14 of this document for information on published sickness absence data and note 3 to the accounts for information on staff costs and employee numbers.

## Personal data related incidents

There have been no incidents reported to the Information Commissioner's Office.

A. Peoples
Chief Executive and Accounting Officer
10 June 2015

# Remuneration Report

## 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 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

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

The following sections provide details of the total remuneration and pension interests of the directors of the agency relating to both the VOSA and DSA trading funds, and have been audited. The table below shows the total amount received by each director and these costs have been shared equally between the two trading funds. There were no benefits in kind received by any directors during the year.

| Directors | Salary £000 | | Bonus £000 | | Compensation for loss of office[a] £000 | | Pension benefits £000 | | Total £000 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 |
| Mr Alastair Peoples Chief Executive (from 01/07/13) | 110-115 | 80-85 (110-115 FYE) | 15-20 | - | - | - | 35-40 | 20-25 (30-35 FYE) | 165-170 | 105-110 (140-145 FYE) |
| Mr Paul Satoor Director (from 01/09/13) | 85-90 | 50-55 (90-95 FYE) | 10-15 | - | - | - | 30-35 | 0-(5) (0-(5) FYE) | 130-135 | 50-55 (85-90 FYE) |
| Mr Paul Coombs Director (from 01/09/13) | 80-85 | 45-50 (80-85 FYE) | - | - | - | - | 15-20 | 10-15 (20-25 FYE) | 95-100 | 60-65 (100-105 FYE) |
| Mr Robert Bellis Director (from 11/08/14 to 30/04/15) | 55-60 (90-95 FYE) | n/a | - | n/a | - | n/a | 10-15 (20-25 FYE) | n/a | 70-75 (110-115 FYE) | n/a |
| Mr Adrian Long Director (from 03/11/14) | 40-45 (100-105 FYE) | n/a | - | n/a | - | n/a | 15-20 (35-40 FYE) | n/a | 55-60 (135-140 FYE) | n/a |
| Mr James Munson Director (from 16/03/15) | 5-10 (120-125 FYE) | n/a | - | n/a | - | n/a | - | n/a | 5-10 (120-125 FYE) | n/a |
| Mrs Kathryn Gillatt Director (up to 30/06/14) | 30-35 (75-80 FYE) | 75-80 | - | - | 85-90 | - | (50)-(55) ((210)-(215) FYE) | 5-10 | 65-70 ((130)-(135) FYE) | 85-90 |
| Mr Nicholas Carter Director (up to 30/06/14) | 30-35 (70-75 FYE) | 80-85 | - | - | 150-155 | - | 0-5 (5-10 FYE) | 0-5 | 185-190 (80-85 FYE) | 85-90 |
| Mr Andrew White Director (from 01/09/13 to 31/12/14) | 120-125 (120-125 FYE) | 60-65 (105-110 FYE) | - | - | 55-60 | - | 30-35 (30-35 FYE) | 25-30 (40-45 FYE) | 210-215 (210-215 FYE) | 85-90 (145-150 FYE) |
| Asma Jhina Director[b] (from 06/05/14 to 03/07/14) | 35-40 (195-200 FYE) | n/a | - | n/a | - | n/a | - | n/a | 35-40 (195-200 FYE) | n/a |
| Ms Rosemary Thew Chief Executive (up to 30/06/13) | n/a | 25-30 (105-110 FYE) | n/a | - | n/a | - | n/a | (5)-(10) ((35)-(40) FYE) | n/a | 15-20 (65-70 FYE) |

| Directors | Salary £000 | | *Bonus £000 | | [a]Compensation for loss of office £000 | | Pension benefits £000 | | Total £000 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 |
| Mrs Lesley Young Acting Director and Chief Driving Examiner (up to 30/09/13) | n/a | 30-35 (60-65 FYE) | n/a | - | n/a | - | n/a | 10-15 (25-30 FYE) | n/a | 40-45 (85-90 FYE) |
| Mrs Sarah Maddock Acting Director (between 22/10/12 and 30/09/13) | n/a | 25-30 (55-60 FYE) | n/a | - | n/a | - | n/a | 25-30 (50-55 FYE) | n/a | 50-55 (105-110 FYE) |
| Mrs Jane May Non-Executive Director (from 01/10/13 to14/06/14) | 5-10 (35-40 FYE) | 10-15 (20-25 FYE) | - | - | - | - | - | - | 5-10 (35-40 FYE) | 10-15 (20-25 FYE) |
| Mr Paul Smith Non-Executive Director (from 01/10/13) | 15-20 | 5-10 (15-20 FYE) | - | - | - | - | - | - | 15-20 | 5-10 (15-20 FYE) |
| Geraldine Terry Non-Executive Director (from 11/06/14) | 5-10 (15-20 FYE) | n/a | - | n/a | - | n/a | - | n/a | 5-10 (15-20 FYE) | n/a |
| Fiona Ross Non-Executive Director (from 11/06/14) | 20-25 (40-45 FYE) | n/a | - | n/a | - | n/a | - | n/a | 20-25 (40-45 FYE) | n/a |
| Mr Richard Read Non-Executive Director (up to 31/10/13) | n/a | 10-15 (15-20 FYE) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 10-15 (15-20 FYE) |
| Mr William Price Non-Executive Director (up to 31/10/13) | n/a | 5-10 (10-15 FYE) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 5-10(10-15 FYE) |

[a)] Payment made for loss of office consists of compensation payment and pension top-up which was agreed with DfT.
[b)] Ms Asma Jhina was a contractor and not directly employed by VOSA

The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of them having an extra year's service and by virtue of any pay rise during the year. Where there is no pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce, hence the negative values.

Bonus payments made in 2013-14 were excluded as this was prior to the merger of DSA and VOSA.

## Salary

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance that is subject to UK taxation, for example pay in lieu of leave not taken, certain travel allowances and professional subscriptions. This report is based on accrued payments made by the Department and thus recorded in these accounts.

## Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2014-15 relate to performance in 2014-15 and the comparative bonuses reported for 2013-14 relate to the performance in 2013-14.

## Pay multiples (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in the organisation and the median remuneration of the organisation's workforce.

| | 2014-15 | 2013-14 |
|---|---|---|
| Full Time Equivalent Band of the Highest Paid Director (£000) | 195-200 | 110-115 |
| Median Total Remuneration (£) | 26,737 | 26,151 |
| Ratio of highest paid to median | 7.4 | 4.3 |

The banded remuneration of the highest paid director in DSA in the financial year 2014-15 was £195k-£200k (2013-14 £110k-£115k). This was 7.4 times (2013-14 4.3 times) the median remuneration of the workforce, which was £26,737 (2013-14 £26,151).

There was an increase of 3.1 in the ratio of the highest paid director to median remuneration due to the appointment of a short term interim Director and associated annualised cost.

In 2014-15, 1 (2013-14, 0) employee received remuneration in excess of the highest-paid director. Remuneration ranged from £7,000 to £225k-£230k (2013-14, £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 2014-15 is derived from the annualised payments to all staff made in March 2015. Part time employees' payments are adjusted to a full time basis.

## The real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and member contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

## Pension benefits (Audited)

| Director | Accrued pension at age 65 as at 31/3/15 and related lump sum £000 | Real increase in pension and related lump sum at age 65 £000 | CETV at 31/3/15 £000 | CETV at 31/3/14 £000 | Real increase in CETV £000 |
|---|---|---|---|---|---|
| Mr Alastair Peoples Chief Executive | 45-50 plus140-145 lump sum | 0-2.5 plus 5-7.5 lump sum | 1,070 | 986 | 35 |
| Mr Paul Satoor Director | 5-10 plus 0-5 lump sum | 0-2.5 plus 0-2.5 lump sum | 64 | 41 | 14 |
| Mr Paul Coombs Director | 5-10 plus 0-5 lump sum | 0-2.5 plus 0-2.5 lump sum | 123 | 100 | 12 |
| Mr Robert Bellis Director (from 11/08/14) | 0-5 plus 0-5 lump sum | 0-2.5 plus 0-2.5 lump sum | 16 | - | 11 |
| Mr Adrian Long Director (from 03/11/14) | 5-10 plus 0-5 lump sum | 0-2.5 plus 0-2.5 lump sum | 82 | 68 | 9 |
| Mrs Kathryn Gillatt Director (up to 30/06/14) | 15-20 plus 50-55 lump sum | 0-(2.5) plus (2.5)-(5.0) lump sum | 326 | 355 | (42) |
| Mr Nicholas Carter Director (up to 30/06/14) | 25-30 plus 80-85 lump sum | 0-2.5 plus 0-2.5 lump sum | 518 | 513 | 2 |
| Mr Andrew White Director (to 31/12/14) | 15-20 plus 0-5 lump sum | 0-2.5 plus 0-2.5 lump sum | 186 | 160 | 13 |

Ms Asma Jhina was a contractor and hence no pension benefit was accrued.
James Munson was not a member of the PSCPS before joining on 16 March and has not accrued any disclosable pension benefit prior to year-end.

## Civil Service Pensions

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

Employee contributions are salary-related and range between 1.5% and 6.85% of pensionable earnings for **classic** and 3.5% and 8.85% for **premium**, **classic plus** and **nuvos**. 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 his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

New Career Average pension arrangements will be introduced from 1st April 2015 and the majority of **classic**, **premium**, **classic plus** and **nuvos** members will join the new scheme. Further details of this new scheme are available at http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/

## Cash Equivalent Transfer Values

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

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

## Real increase in CETV

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

## Compensation for loss of office

3 Directors left under Voluntary Exit terms during 2014/15 (1, 2013/14). They received a compensation payments totalling £297,000 (0, 2013/14).

**Reporting of Civil Service and other compensation schemes – exit packages**

| | Core Dept. & Agencies | | |
|---|---|---|---|
| Exit package cost band | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band |
| £25,000 - £50,000 | - | - | - |
| £50,000 - £100,000 | - | 2 | 2 |
| £150,000 - £200-000 | - | 1 | 1 |
| Total number of exit packages | - | 3 | 3 |
| Total cost / £ | - | £297,000 | £297,000 |

A. Peoples
Chief Executive
10 June 2015

# Statement of Accounting Officer's Responsibilities

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

### *Business Accounts*

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed DSA to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction as set out in Dear Accounting Officer letter [DAO (GEN) 04/14]. The Accounts are prepared under International Financial Reporting Standards (IFRS) on an accruals basis and must give a true and fair view of the state of affairs of DSA as at 31 March 2015 and of the Statement of Comprehensive Net Income, changes in taxpayers' equity, and cash flows for the financial year.

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

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

# Governance Statement

## ACCOUNTING OFFICER'S INTRODUCTION

To allow me to discharge my role for the DSA Trading Fund Annual Report and Accounts this Governance statement depicts the approach taken to deliver effective corporate governance for the agency in 2014-15. In June 2013 it was announced as part of the motoring services strategy that DSA and VOSA would merge into one agency. The new agency was formally launched on the 2nd April 2014. I took the opportunity to ensure the Governance Structure was fit for purpose for the needs of the new Driver & Vehicle Standards Agency (DVSA) Trading Fund ( enacted by S.I. 2015 no.41), whilst retaining appropriate control to allow clear line of sight for my responsibilities for each Trading Fund and their Accounts. From 2015-16 there will be one Governance statement for the new DVSA Trading Fund.

I can confirm that whilst the two agencies have merged into a single entity, we have managed finances separately and appropriately to service the two current legally constituted trading funds. We maintained separate accounting systems over the year and continued to do so until the new trading fund order was enacted (April 2015). In order to ensure the regularity of payments between the two organisations, joint costs have been shared equally. All other income and costs have been accounted for in the respective agency to which they related to maintain transparent governance for the two Trading Funds. Future reference to Boards in this document reflects their function both as a singular VOSA/DSA and a dual DVSA Board.

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

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' (FReM) require that I provide a statement on how I have discharged my responsibility to manage and control DSA's Trading Fund resources for which I am responsible during the year.

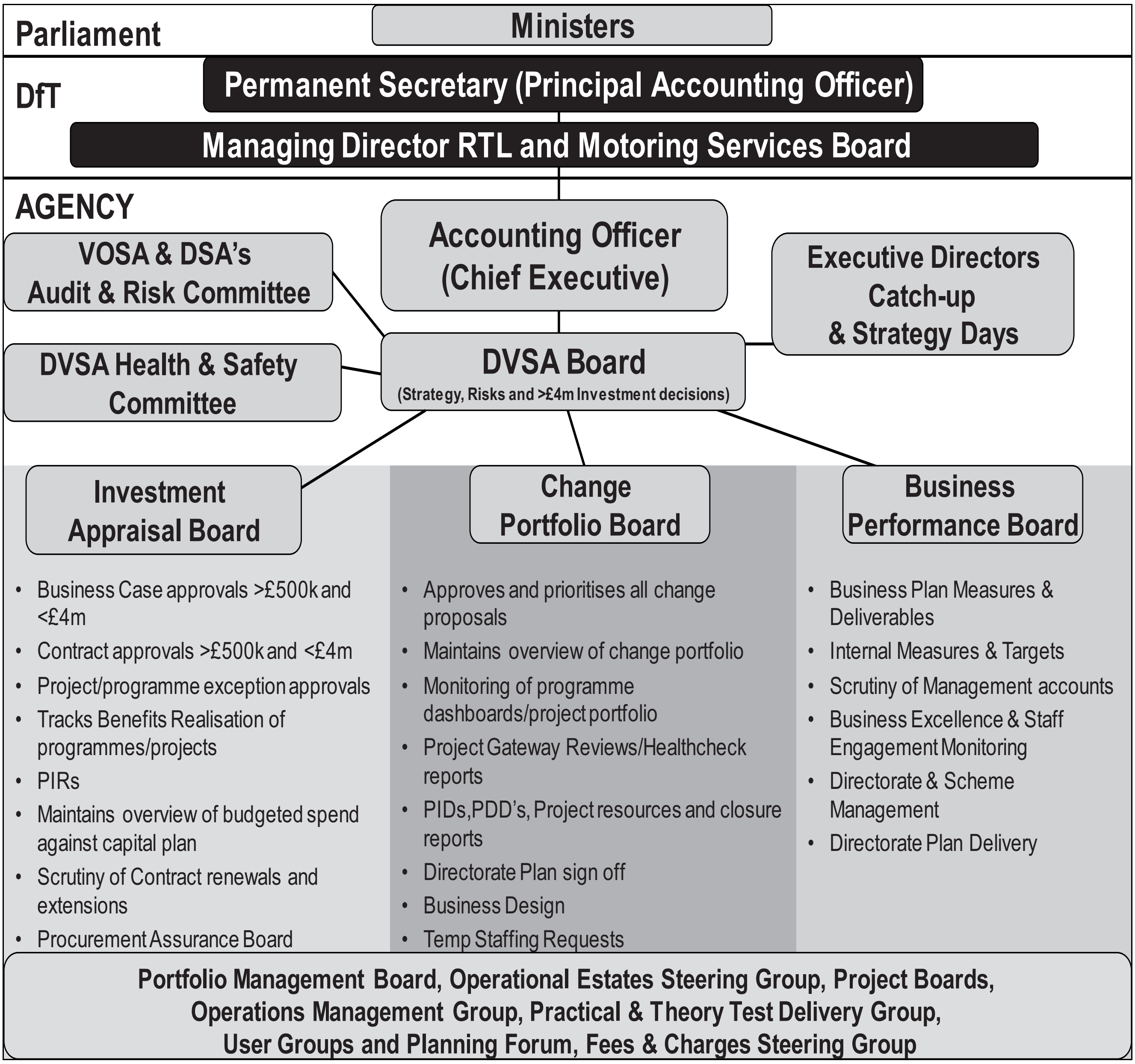
I have provided details below of how DVSA's system of corporate governance operated during 2014-15, including any areas where the system has not operated in line with the Code.

## GOVERNANCE FRAMEWORK

As an executive agency of DfT, DVSA follows the arrangements as set out in the Department's Framework document. The agency's annual business plan was submitted to the Secretary of State for endorsement of the key performance measures at the beginning of the year and regular reporting of progress against these has taken place to the Director General of the Roads Traffic and Local Group (RTL).

The agency's framework identifies how its corporate leadership is organised, how decisions are made, how finances are controlled and how performance and risk are monitored and managed in compliance with the *Corporate governance in central government departments: Code of good practice*.

**DVSA Corporate Governance Framework** (Shows structure as at March 2015).




**THE GOVERNANCE CULTURE**

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

The chair of agency boards and committees invites members to declare any conflicts of interest at the start of each meeting. Each Board evaluates the meeting's structure, content and presentation to facilitate informed decision making. Membership of Committees and sub-Boards was updated to ensure executive lead and cross-agency working was facilitated whilst maintaining good governance for the two Trading Funds. The Non-Executive Directors (NEDs) continue to provide the independent advice and external assurance required. An assessment is taken as part of every Board. In this year of merger and transition it was not timely to conduct our annual Board Effectiveness review. With the agreement of the NEDs I have committed to an externally facilitated review in August 2015 to assure our evolved Board structures.

**THE DIRECTING BOARD** (DVSA Transition Board from April 2013 until July 2014 & DVSA Directing Board from August 2014)

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 DVSA's strategic aims, ensures financial and human resources are in place to meet objectives and reviews business performance. It also sets DVSA's values and standards and ensures obligations to customers and other stakeholders are understood and met. As I am both the VOSA and DSA Accounting Officer, I chose to Chair the Board. This provided me with overall decision making authority on matters for which I am responsible and may be subject to Parliamentary scrutiny. Papers produced for the Board are owned by a presenting Director and this role includes ensuring information and the data contained is robust and fit for purpose.

**DVSA Directing/Transition Board attendee numbers from April 2014 – March 2015 (no Board in September)**

| Board member | Title | No of meetings attended |
|---|---|---|
| Alastair Peoples | Chief Executive | 9/11 |
| Paul Satoor | Director of Organisational Development & Strategy | 9/11 |
| Paul Coombs | Director of Finance and Corporate Services (including Chief Information Officer Jan-15th Mar) | 10/11 |
| Andy White | Chief Information Officer (until December) | 5/7 |
| James Munson | Director of Digital Services and Technology (from March 15) | 0/0 |
| Rob Bellis | Director of Operations (from August) | 4/6 |
| Adrian Long | Director of Policy and Stakeholder Management (from November) | 4/5 |
| Kathy Gillatt | Corporate Services Director (until June) | 3/3 |
| Asma Jhina | Interim Director of Policy and Stakeholder Management (from April until June) | 1/1 |
| Nick Carter | Director of Operations (until May) | 0/2 |
| Paul Smith | Non Exec Director | 11/11 |
| Geraldine Terry | Non Exec Director (from June) | 9/9 |
| Fiona Ross | Non Exec Director (from June) | 9/9 |
| Jane May | Non Exec Director (until June) | 3/3 |

**DVSA Audit & Risk Committee (A&RC) attendee numbers from April 2014 to March 2015**

| Board member | Title | No of meetings attended |
|---|---|---|
| Paul Smith | Non Exec Director | 7/7 |
| Geraldine Terry | Non Exec Director (from September 14) | 1/3 |
| Fiona Ross | Non Exec Director (from September 14) | 3/3 |
| Gareth Williams | Non Exec Director (A&RC only) | 6/7 |
| Graham Pendlebury | Non Exec Director (DfT nominee) | 7/7 |
| Jane May | Non Exec Director (until June 14) | 4/4 |

**AUDIT & RISK COMMITTEE (A&RC)**

The Directing Board maintains the A&RC as a committee of the Board and its membership is exclusively non-executive. For 2014-15 the A&RC dealt with items that support both Trading Funds separately as well as for the total organisation. It advised and supported the Board responsibilities for risk, control and governance. The A&RC reviewed the comprehensiveness of assurances in place to meet the Board's needs for each Trading Fund and reviewed the reliability and integrity of these assurances, providing advice where applicable. This included reviewing and advising on the implementation of accounting principles in conjunction with external auditors.

**HEALTH & SAFETY COMMITTEE** (HSC)

The HSC is a Committee of the Board and, in accordance with HSE guidance, advises and supports the Directing Board on matters of health and safety policy, structure and communication, reviewing these against legal obligations. Regular meetings were held utilising the Trade Union for Staff Side representation and a NED – Paul Smith. It was chaired by a member of the Directing Board.

**INVESTMENT APPRAISAL BOARD** (IAB)

IAB has been delegated authority by the Directing Board to appraise and approve business cases for investment, providing assurance to the Directing Board that sound decisions are made in relation to the investment of public funds. The IAB has authority to approve investments and contracts ≥ £500,000 and <£4m and to endorse investments and contracts ≥£4m for Directing Board approval. This applies to business as usual, capital, project or programme related investments and contracts. The IAB has also been delegated authority by the Directing Board to monitor capital spend in the agency, monitor benefit realisation for approved projects and approve post implementation reviews. The IAB also provides scrutiny of contracts awards by providing procurement assurance. It is chaired by a member of the Directing Board and has an open invitation for NED attendance within its Terms Of Reference. Fiona Ross (NED) regularly attended its meetings.

**CHANGE PORTFOLIO BOARD (**CPB**)**

The CPB has been delegated authority by the Directing Board to govern the development of change proposals to deliver DVSA's Blueprint and Business Plan. All proposals are required to be considered by the CPB ahead of work commencing on a business case and/or submission to the IAB and/or Directing Board. The CPB scrutinises the performance of all project and programme activity through dashboard reports, health-check and gateway reviews. The CPB has also been delegated authority to ensure alignment of the change portfolio within the agency's strategy and approval of project initiation documents and closure reports. It is chaired by a member of the Directing Board and has an open invitation for NED attendance within its Terms of Reference.

**BUSINESS PERFORMANCE BOARD** (BPB)

The BPB has been delegated authority by the Directing Board to ensure DVSA's Business Plan, Directorate Plans, operational measures, scheme management and performance targets are being met. The BPB also scrutinises the in-year financial performance of DVSA. It is chaired by a member of the Directing Board and has an open invitation for NED attendance within its Terms of Reference.

**RENUMERATION COMMITTEE**

The Renumeration Committee did not meet this year as negotiations were carried out as part of the DfT Modernising Employment Contract.

**RISK MANAGEMENT**

DVSA Directors recognise that innovation and opportunities to improve services requires some risk taking. The agency applies HM Treasury guidance with the aim of managing risk to a reasonable level rather than to eliminate all risk of achieving its objectives. The DfT risk policy and strategy is used to identify and manage risks that could impact on the delivery of our services, finances or reputation. Risk management is an integral part of governance for operational services and the change programme. The corporate risk register informs the annual audit programme. The Corporate Risk Manager oversees the risk management process, provides specialist advice and attends the A&RC.

As the agency moved through its merger programme during the year, the Board recognised the need for flexibility to deliver challenging aims and maintained the appetite to risk taking as ‘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. Risks have been considered on a case by case basis, with each risk assessed on its own merit after consideration of costs, benefits and impacts of potential mitigations and taking into account wider cumulative risk exposures.

The key areas of responsibility that have been managed through DVSA’s corporate risk register this year have been:

- **Capacity to meet the challenge of significant change and maintaining ‘business as usual’ through the significant portion of the merger programme** – The merger programme baseline was reset early on to properly reflect the full scope of work for the coming year. Directorate plans were closely monitored through the Planning Forum and Director 1-2-1 meetings to maintain delivery of core business activity and the strategic portfolio was combined to manage all change activity across the vehicle and driver sides of the agency. The Governance arrangements were amended in year facilitating decision making for the appropriate allocation of resources to achieve business core objectives and merger activities. Regular planning discussions were held with Directors and DfT to anticipate risks and issues and prioritise the mitigations available. More recently we have discussed with DfT the wider government priorities and the Motoring Services future strategy. The agency is managing a substantial change portfolio including IT Modernisation, the Modernising Employment Contract, the transition phase of the Merger programme and implementation of Shared Services. Whilst we continue to make progress and stretch our capacity to gain the benefits of change, going forward the draw on resources may impact our day-to-day business delivery in 2015-16. DVSA’s Portfolio and Change team continue to work to support complete understanding of the change agenda across DVSA, including all the ICT changes.

- **Modernised IT Applications** – we have managed several ICT related risks at corporate level in year. We considered a number of options and negotiated with partners to mitigate the potential financial risks identified with the termination point of key contracts. The Board is cognisant of the high risk to reputation associated with new customer facing IT systems due for delivery in 2015. It has kept abreast of and regularly challenged delivery plans. It has assessed resources and brought together key projects into programme governance with individual responsibilities identified. We have also prioritised the customer facing deliverables. Financial, Technical and Resource related mitigations were implemented across projects to facilitate delivery success. We continue to work with DfT, Government Digital Services and Cabinet Office to ensure adherence with policy and spend approvals. We are also identifying the cumulative impact of the change portfolio and any conflicting stresses to support successful use of the new ICT tools by DVSA staff. The above, along with the Organisation design aspect of the merger project has meant there have been a number of senior management changes within the Digital Services & Technologies (DS&T) Directorate during the latter half of the year. This was one of several findings identified by PWC following its audit of the DS&T Change Portfolio and reported to the Board and A&RC early in 2015. All the findings have been accepted and a number are already being addressed. The new DS&T Director is committed to identifying solutions for the findings as well as issues and risks associated with the key IT Sourcing and IT Applications Modernisation programmes. He has already put in place a new interim DS&T organisation structure and will be keeping myself and the Board informed of progress.

- **MOT Computerisation 2**
  As part of and in addition to the IT commentary above following project briefings and business case analysis my board and I chose to apply executive priority to the MOT project. This has significantly increased visibility and involvement of Directors. Following challenge days and discussions with DfT and GDS the Board took a number of mitigation actions. Directors lead the MOT Star Chamber that meets weekly as a confidence meeting to resolve any barriers to delivery. The new programme management structure introduced tighter governance and stricter deadlines. Our designation of 1 of the 3 contractors as lead has delivered contract warranties and KPIs. I have also used an external expert

resourse to conduct security testing on the move to the internet based process and the project achieved a GDS alpha phase pass.

- **Shared Services** – During the year the driver and vehicle risks associated with the transition to the new Shared Services platform were aligned. This followed confirmation that go-live of the new system was to be re-set for 2015-16. The migration continues to be governed through a shared services project board that identifies and manages risk. The project completed gap analysis for the driver and vehicle systems so that processes can be aligned. We have maintained regular and detailed dialogue with arvato which has assisted in the commencement of the DVSA build. Some technical data matters are pushing back the project timeline and we are looking at controls to minimise the impact on the delivery schedule. The project is currently reconciling the data supplied for the build activity and working with internal stakeholders to ensure a smooth transition when we are ready to migrate on to the Agresso platform. We have fully utilised the lessons learned from the recent migration of the Maritime and Coastguard Agency. Associated with the extension of the go-live date for Shared Services, DVSA identified forthcoming risks associated with running two Enterprise Resource Planning Systems from April 2015 as the agency formally becomes one Trading Fund. The risk concerns the cost, time and efficiency of producing the accounts and having to create manual work arounds for internal accounting controls whilst we use two systems. The Finance team have considered and tested a range of control options and are confident that the risk can be mitigated to an acceptable level.

**OTHER EXPLICIT REVIEWS/ASSURANCE MECHANISMS**

There are a number of internal control processes which provided a framework for managers and staff to successfully and efficiently deliver the agency's objectives. The A&RC oversees the controls in place through scrutiny of the Management Assurance Statement returns from Directors to the Board and DfT. This includes the controls in place through:

**INTERNAL AUDIT**

Operating to the standards defined in Public Sector Internal Audit Standards, the qualified audit team completed a programme of audits which were informed by the change programme, risk analysis and other issues identified by Directors. Audit reports and management action trackers were reviewed by the A&RC. The Head of Internal Audit's 2014/15 annual report of his opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control concluded with a 'Moderate' rating. Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

**MANAGEMENT ASSURANCE**

This exercise is a key part of the governance framework for DfT. It is overseen by the Group Audit Committee, which views it as a primary source of assurance for them. DVSA's Executive Directors complete the DfT-led management assurance report which assesses the full range of delegations, policies and procedures laid down by the agency and the department, the adequacy of these arrangements and what remedial action is being taken where improvement is needed. This is considered by the AR&C which assists me as Accounting Officer in the assurance of matters of internal control. For 2014-15, the agency response to DfT provides evidence to support moderate or substantial assurance in all matters except one;
Succession Planning (Limited Assurance) – In year we identified Business critical roles as part of the Organisation Design merger project. We also developed a talent management/ succession planning approach which has been rolled out to Directors. Going forward for next year we will be utilising the 9 box talent grid for senior staff more widely and identifying potential successors. Having identified the skills and competencies needed to succeed in senior roles; DVSA is launching a Grade 6 development programme. This approach will be rolled out through the grades SEO to AA as the merger redesign work progresses. In addition a Talent Pool programme is to be launched in 2015-16.

## STEWARDSHIP CERTIFICATES & CONFLICTS OF INTEREST

Each Director completes a qualitative assessment known as a Stewardship Certificate. This states that by identifying and controlling risks within their Directorate and acting as Risk Steward for designated corporate risks they assist the agency in achieving its objectives, provide the necessary assurance that their staff have taken due cognisance of internal control requirements and declare any conflicts of interest for themselves, their families and their senior staff.
There are no instances of conflicts of interest that I need to report.

## INFORMATION SECURITY

DVSA's data and information handling procedures comply with statutory and regulatory requirements. The agency seeks compliance with HMG Information Assurance (IA) Standards 1 to 7 and HMG Security Policy Framework, together with Good Practice Guides published periodically by Communications Electronics Security Group (CESG). The agency complies with Cabinet Office guidance on information risk management. DVSA's Senior Information Risk Owner attends the Directing Boards acting as the focus for information risks. A network of trained Information Asset Owners is in place to ensure information assets are managed effectively and appropriate risk controls are in place. All staff agree to an Acceptable Use Policy before accessing IT systems. The A&RC reviews Information Assurance reports twice per annum. There have been no significant breaches to report to the Information Commissioner's Office this year.

## FINANCIAL MANAGEMENT AND STEWARDSHIP

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

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

## FRAUD & BRIBERY

Fraud and bribery related matters are taken seriously by the agency and DVSA manages the risks of both internal and external fraud and bribery - reports of any such instances are fully investigated. The A&RC terms of reference enable it to gain assurance that an appropriate fraud strategy exists and this year the Committee has provided challenge to the assessment of external and internal fraud exposure. They have asked for an agency fraud response plan to be presented to complete the merger issues. Fraud Reports are submitted to the A&RC with regular updates provided on counter-fraud measures and investigations undertaken. Staff awareness briefing, training and whistle blowing instructions are kept up to date. We are committed to protecting the integrity of the driving and vehicle testing services provided to the public and industry.

## NON-EXECUTIVE DIRECTORS' STATEMENT

During 2014-15, the NEDs 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 that have not been disclosed in the annual governance statement.

The Board has continued to function reasonably effectively and thorough discussion and challenge is provided by Executive and Non-Executive members for each decision. The Board's membership has continued to fluctuate with several key positions suffering turnover with some unavoidable impact on the Board’s effectiveness..

In terms of concerns, there remains a need for ongoing focus on the implementation of the IT replacement strategy and, in particular, the MOT computerisation replacement programme, (also reflected in the last two year’s statements), and the implementation of shared services. In addition, attention needs to remain on the basic control framework to ensure major IT upheaval and ongoing transformation work do not adversely impact on it.

**CONCLUSION**

The modernisation of our IT services to better support the business and improve customer delivery and experience remains challanging.  Our intention is to deliver good usable IT products for customers and the business that provide a longterm platform for further improvements.

I can confirm that as the AO for the DSA trading fund I ensure compliance with the HMT Code of Good Practice for Corporate Governance in Central Government Departments. The information and processes outlined in this statement provide me with sufficient assurance that DVSA’s governance and internal controls have been effective throughout the year.

**A. Peoples**
Chief Executive and Accounting Officer
10 June 2015

## 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 Driving Standards Agency for the year ended 31 March 2015 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 Driving Standards Agency's affairs as at 31 March 2015 and of its retained 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.

### Opinion on other matters

In my opinion:

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

Sir Amyas C E Morse Date 16 June 2015
Comptroller and Auditor General

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

# Financial Statements

**Statement of Comprehensive Net Income**

**For the year ended 31 March 2015**

| | Note | 2014-15<br>£000 | 2013-14<br>£000 |
|---|---|---|---|
| **Income from operations** | | | |
| Income from statutory activities | 2 | 194,093 | 185,147 |
| Income from other operating activities | 2 | 9,824 | 15,494 |
| **Total income from operations** | | **203,917** | **200,641** |
| | | | |
| **Expenditure from operations** | | | |
| Staff costs | 3 | (77,218) | (81,595) |
| Other operating charges | 4 | (82,178) | (85,189) |
| Depreciation, amortisation, impairment and profit on asset disposal | 6 | (5,865) | (6,320) |
| **Total expenditure from operations** | | **(165,261)** | **(173,104)** |
| | | | |
| **Net operating surplus** | | **38,656** | **27,537** |
| | | | |
| Finance income | | 253 | 223 |
| Finance costs | 5 | (7,176) | (8,064) |
| **Net finance costs** | | **(6,923)** | **(7,841)** |
| | | | |
| **Surplus for the year** | | **31,733** | **19,696** |
| Dividend payable | 5 | (2,605) | (1,264) |
| **Retained surplus for the year** | | **29,128** | **18,432** |
| | | | |
| **Other comprehensive net income**<br>Items that will not be reclassified to expenditure from operations: | | | |
| Net gain/(loss) on revaluation of property plant & equipment | 6 | (1,120) | 4,033 |
| Net gain/(loss) on revaluation of intangibles | 7 | 243 | (2,002) |
| **Total other comprehensive net income / (expenditure)** | | **(877)** | 2,031 |
| | | | |
| **Total comprehensive net income for the year** | | **28,251** | **20,463** |

Accounting policies and notes forming part of the Financial Statements are on pages 49 to 70.

## Statement of Financial Position

### As at 31 March 2015

| | Note | 31 March 2015 £000 | 31 March 2014 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 98,607 | 102,734 |
| Intangible assets | 7 | 6,859 | 9,355 |
| **Total non-current assets** | | **105,466** | **112,089** |
| | | | |
| **Current assets** | | | |
| Trade and other receivables | 9 | 4,675 | 18,085 |
| Assets held for sale | 8 | 455 | 246 |
| Cash and cash equivalents | 15 | 94,753 | 76,925 |
| **Total current assets** | | **99,883** | **95,256** |
| | | | |
| **Total assets** | | **205,349** | **207,345** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | (56,842) | (79,936) |
| Provisions | 11 | (1,404) | (905) |
| **Total current liabilities** | | **(58,246)** | **(80,841)** |
| | | | |
| **Total assets less current liabilities** | | **147,103** | **126,504** |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | 11 | (223) | (934) |
| Other payables | 10 | (50,474) | (49,379) |
| **Total non-current liabilities** | | **(50,697)** | **(50,313)** |
| | | | |
| **Assets less liabilities** | | **96,406** | **76,191** |
| | | | |
| **Taxpayers' equity** | | | |
| Public dividend capital | | 3,475 | 3,475 |
| Loans from the Secretary of State | 12 | - | 8,036 |
| General fund | SoTE | 75,100 | 48,374 |
| Revaluation reserve | SoTE | 17,831 | 16,306 |
| **Total taxpayers' equity** | | **96,406** | **76,191** |

Accounting policies and notes forming part of the Financial Statements are on pages 49 to 70.

A. Peoples
Chief Executive and Accounting Officer
10 June 2015

## Statement of Cash Flows

**For the year ended 31 March 2015**

| | Note | 2014-15 £000 | 2013-14 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net operating surplus | SoCNI | 38,656 | 27,537 |
| Adjustments for non-cash transactions | 6 & 11 | 4,761 | 5,706 |
| (Increase)/decrease in trade and other receivables | 9 | 13,410 | (10,295) |
| Increase/(decrease) in trade and other payables | 10 & 5 | (9,320) | 10,344 |
| Use of provisions | 11 | (620) | (904) |
| **Net cash inflow from operating activities** | | **46,887** | **32,388** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 6 | (150) | (1,496) |
| Purchase of intangible assets | 7 | (443) | (78) |
| Proceeds of disposal of property, plant and equipment | | 266 | 156 |
| **Net cash (outflow) from investing activities** | | **(327)** | **(1,418)** |
| **Cash flows from financing activities** | | | |
| Interest received on cash balances | SoCNI | 253 | 223 |
| Interest payments made under finance leases | 5 | (6,760) | (6,611) |
| Repayment of loans from the Secretary of State | 12 | (21,810) | (14,570) |
| Interest payable on loan financing | 5 | (415) | (1,427) |
| **Net financing** | | **(28,732)** | **(22,385)** |
| **Net increase in cash and cash equivalents** | 15 | **17,828** | **8,585** |
| **Cash and cash equivalents at the beginning of the year** | | **76,925** | **68,340** |
| **Cash and cash equivalents at the end of the year** | | **94,753** | **76,925** |

Accounting policies and notes forming part of the Accounts are on pages 49 to 70.

## Statement of Changes in Taxpayers' Equity
**For the year ended 31 March 2015**

| | Note | General Fund | Revaluation Reserve | Public Dividend Capital | Loans from the Secretary of State | Total Taxpayers' Equity |
|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 |
| **Balance as at 31 March 2013** | | **31,048** | **13,169** | **3,475** | **29,846** | **77,538** |
| **Changes in 2013-14** | | | | | | |
| Retained surplus for the year | SoCNI | 18,432 | - | - | - | 18,432 |
| Net movement on revaluation of property plant & equipment | SoCNI | - | 4,033 | - | - | 4,033 |
| Net movement on revaluation of intangibles | SoCNI | - | (2,002) | - | - | (2,002) |
| Transfers between reserves | | (1,106) | 1,106 | - | - | - |
| Movement on loans in the year | 12 | - | - | - | (21,810) | (21,810) |
| **Total** | | 17,326 | 3,137 | - | (21,810) | (1,347) |
| **Balance as at 31 March 2014** | | **48,374** | **16,306** | **3,475** | **8,036** | **76,191** |
| **Changes in 2014-15** | | | | | | |
| Retained surplus for the year | SoCNI | 29,128 | - | - | - | 29,128 |
| Net movement on revaluation of property plant & equipment | SoCNI | - | (1,120) | - | - | (1,120) |
| Net movement on revaluation of intangibles | SoCNI | - | 243 | - | - | 243 |
| Transfers between reserves | | (2,402) | 2,402 | - | - | - |
| Movement on loans in the year | 12 | - | - | - | (8,036) | (8,036) |
| **Total** | | 26,726 | 1,525 | - | (8,036) | 20,215 |
| **Balance as at 31 March 2015** | | **75,100** | **17,831** | **3,475** | **-** | **96,406** |

The revaluation reserve and public dividend capital are non-distributable.
Transfers between reserves relate to backlog depreciation.

Accounting policies and notes forming part of the Financial Statements are on pages 49 to 70.

# Notes to the financial statements

## Note 1 – Statement of accounting policies

These financial statements have been prepared in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which 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. As a trading fund, IFRS are applied over FReM where necessary to show a 'true and fair' view.

Amendments to the FReM for IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, has had no impact on the accounts of DSA. DSA has not adopted any new standards early. These statements have been presented in a form to be comparable to the agreed DVSA financial statements template.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2015 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:

- 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 DVSA;
- IFRS 13 sets out the framework for measuring fair value. FReM Exposure Draft ED(14)01 has been released with adoption, amended for the public sector, 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 not expected to impact DVSA as all current assets are held for operational activity not financial return and the proposed adaption will mean values are unaffected.
- 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 DVSA's accounts;
- 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 DVSA 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 2015-16 are considered to have no impact on DVSA.

### a) Basis of preparation

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. They comply with the accounting and disclosure requirements of the Companies Act 2006, and the accounting standards issued or adopted by the International Accounting Standards Board, in so far as those requirements are appropriate. As at the 1st April 2015 DSA will be fully absorbed into the DVSA trading fund.

### b) Going concern

On 20 June 2013, the Transport 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.

The new single agency brings 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). DSA and VOSA continued to be two separate trading funds until 31 March 2015. DVSA then gained trading funds status under the provisions of the Government Trading Funds Act of 1973, amended. DVSA was formally launched on 2nd April 2014. During the year the permanent DVSA Directing Board was appointed. The DVSA trading fund commenced on 1 April 2015 absorbing all the assets and liabilities of the trading funds of DSA and VOSA. At the same time, the DSA and VOSA trading funds ceased to exist.

Due to the fact that the statutory duties of the Driving Standards Agency and the Vehicle and Operator Services Agency 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.

**c) 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'.

All income (and expenditure) is derived from continuing activities.

**d) Central departmental funding**

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

Central funding in the form of loans from the Secretary of State has also been provided to DSA to support the investment in major estate, equipment and IT developments which could not be funded from DSA's own resources. In accordance with HM Treasury direction, balances of such loans that are repayable within one year are held within current liabilities and balances that are repayable after one year are included within Taxpayers' Equity. Interest charged on loans is expensed in line with IAS 23.

**e) Pension, early release scheme and payroll costs**

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. Payment is made into the Treasury Consolidated Fund of amounts to cover liabilities in respect of superannuation benefits for persons who have been employed.

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

A full actuarial valuation was carried out as at 31 March 2012. Details can be found at (http://www.civilservicepensionscheme.org.uk/about-us/scheme-valuations/).

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)**

DSA is not separately registered for VAT. VAT is accounted for through the Department for Transport (DfT) group registration. DSA recovers input 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. DSA charges output VAT on non-statutory services.

**g) Segmental reporting**

It is not necessary for DSA 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. DSA has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

**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.

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. 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.

In preparation for the transfer of DSA to DVSA and the alignment of accounting policies, the furniture and fittings asset category has been closed with the residual value of the assets being charged to the Statement of Comprehensive Net Income.

**i) Assets in the course of construction**

DSA capitalises the value of assets under construction at cost. All assets that have not been commissioned during the year but which are still in the course of construction at year-end are classified accordingly at year-end.

**j) 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.

**k) Depreciation and amortisation**

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
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
Motor vehicles – 3 to 5 years
Other equipment – 5 years

**l) Assets held for sale**

Assets held for sale comprise properties and motor vehicles that are no longer in operational use. They are available for immediate sale in their present condition and are being actively marketed. The assets are reclassified 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.

**m) Leasing**

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

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.

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

**n) 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 in note 15. The agency does not have any bank overdrafts.

**o) 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) Provision for liabilities and charges
Provisions have been established under the criteria of IAS 37 and are based on realistic and prudent estimates of the net present value of the estimated future expenditure required to settle present legal or constructive obligations that exist at the year end in respect of cases such as personal injury, discrimination and unfair dismissal. A HM Treasury discount factor is applied to recognise the time value of money and is unwound over the life of the provision.

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 of the total assets of the agency. Therefore the estimates and assumptions made to determine their carrying value and related depreciation are critical to 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. Where there is no market based evidence of fair value, due to the specialised nature of the asset, such as multipurpose test centres, the agency uses depreciated replacement cost method.

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.

**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 standards (IAS32 and IAS 39) and has disclosed at notes 16 the information it is required to report.

The carrying values of the agency's financial assets and liabilities at 31 March 2015 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.

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.

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

**q) 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 (1.3% for pensions and (1.5%) for all other short term provisions – less than five years) is applied to take account of the time value of money where significant cash flows are expected to arise beyond the next financial period.

Early Departure – provision is made for staff leaving under voluntary early retirement arrangements, when the arrangement is agreed. Costs include lump sum pension payments and 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.

Lease Obligations – the provision relates to property leases and reflects the crystallisation of future liabilities for properties where we have ceased to occupy but which is not expected we will be able to sub-let or revoke the lease. The provision also includes an estimate of potential increases to leases charges which may materialise following contract negotiation and where the increased charge may be back dated to the start of the new lease 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, 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.

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.

## 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 | 2014-15 Income £000 | 2014-15 Expenditure £000 | 2014-15 Surplus/ (deficit) £000 | 2013-14 Income £000 | 2013-14 Expenditure £000 | 2013-14 Surplus/ (deficit) £000 |
|---|---|---|---|---|---|---|
| Cars | 151,878 | 134,421 | **17,457** | 148,021 | 134,481 | **13,540** |
| Large goods/passenger carrying vehicles | 13,245 | 11,251 | **1,994** | 12,020 | 10,855 | **1,165** |
| Motorcycles | 6,847 | 7,008 | **(161)** | 6,126 | 7,204 | **(1,078)** |
| Approved Driving Instructor | 4,739 | 3,935 | **804** | 4,399 | 5,167 | **(768)** |
| Certificate of Professional Competence | 15,784 | 8,456 | **7,328** | 13,071 | 8,389 | **4,682** |
| Compulsory Basic Training | 1,484 | 1,245 | **239** | 1,495 | 1,414 | **81** |
| DDR Scheme | 116 | 172 | **(56)** | 15 | 182 | **(167)** |
| **Total from statutory services** | **194,093** | **166,488** | **27,605** | **185,147** | **167,692** | **17,455** |
| Total from other operating activities | 9,824 | 8,301 | **1,523** | 15,494 | 14,517 | **977** |
| **Total** | **203,917** | **174,789** | **29,128** | **200,641** | **182,209** | **18,432** |

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.

All activities have generated a surplus, apart from motorcycles and DDR. The motorcycle activity break-even point is sensitive to volumes and therefore the deficit has reduced with increased activity. Whilst volumes have increased the business has looked to reduce costs wherever possible and this has also assisted to reduce the historic structural deficit. This is expected to continue. The DDR scheme is a relatively new scheme, again with relatively high fixed costs. The activity deficit is expected to reduce with targeted cost reduction and increased activity.

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

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

| | 2014-15 £000 | 2013-14 £000 |
|---|---|---|
| DfT funding for modernising employment contact | 2,072 | 8,584 |
| DfT funding for enforcement services | 2,147 | 1,964 |
| Royalties from sales of publications | 2,037 | 1,800 |
| Taxi testing | 1,434 | 1,319 |
| Other sundry income | 1,564 | 1,263 |
| DfT funding for the SSC Migration | 570 | 564 |
| **Total income from other operating activities** | **9,824** | **15,494** |

## Note 3 – Staff costs and employee numbers

**a) Staff costs**

| | 2014-15 | | | 2013-14 | | |
|---|---|---|---|---|---|---|
| | **Permanently employed staff** | **Others** | **Total** | **Permanently employed staff** | **Others** | **Total** |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Wages and salaries | 62,031 | 799 | 62,830 | 65,843 | 197 | 66,040 |
| Social security costs | 4,792 | - | 4,792 | 4,777 | - | 4,777 |
| Pension costs | 10,553 | - | 10,553 | 10,778 | - | 10,778 |
| **Total cost** | **77,376** | **799** | **78,175** | **81,398** | **197** | **81,595** |
| Less recoveries in respect of outward secondments | (957) | - | (957) | - | - | - |
| **Total net staff costs** | **76,419** | **799** | **77,218** | **81,398** | **197** | **81,595** |

**b) Average numbers of persons* employed**

| | 2014-15 | | | 2013-14 | | |
|---|---|---|---|---|---|---|
| | **Permanently employed staff** | **Others** | **Total** | **Permanently employed staff** | **Others** | **Total** |
| **Directly employed** | | | | | | |
| Senior Civil Service | 3 | - | 3 | 2 | - | 2 |
| Grade 6 | 7 | - | 7 | 10 | - | 10 |
| Grade 7 | 35 | 1 | 36 | 33 | - | 33 |
| Senior Executive Officer | 80 | - | 80 | 71 | - | 71 |
| Higher Executive Officer | 207 | 4 | 211 | 142 | 1 | 143 |
| Executive Officer | 1,571 | 2 | 1,573 | 1,694 | - | 1,694 |
| Administration Officer | 158 | 4 | 162 | 176 | 2 | 178 |
| Administration Assistant | 25 | 1 | 26 | 33 | - | 33 |
| **Total net persons** | **2,086** | **12** | **2,098** | **2,161** | **3** | **2,164** |

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

Others includes contractors and agency staff.

**c) Exit Package Cost Band**

| | Compulsory Redundancies | | Other Agreed Departures | | Total by Cost Band | |
|---|---|---|---|---|---|---|
| | **2014-15** | **2013-14** | **2014-15** | **2013-14** | **2014-15** | **2013-14** |
| <£10,000 | - | - | 1 | - | 1 | - |
| £10,000-£25,000 | - | - | 1 | - | 1 | - |
| £25,000-£50,000 | - | - | 5 | - | 5 | - |
| £50,000-£100,000 | - | - | 5 | - | 5 | - |
| £100,000-£150,000 | - | - | 2 | - | 2 | - |
| **Total Packages** | - | - | **14** | - | **14** | - |
| **Total Cost (£000)** | - | - | **824** | - | **824** | - |

The above table excludes the director Andrew White, whose remuneration was paid through the VOSA Trading Fund. Equivalent information can be found in the 2014/15 VOSA Annual Report and Accounts. Information relating to their salaries and exit packages can be found in the DSA Remuneration Report (page 28).

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 2014-15 there were no payments made which were not covered by the Civil Service Compensation Scheme. (2013-14 - £nil).

### d) Review of Tax Arrangements of Public Sector Appointees

| **Off- payroll engagements for more than £220 per day and more than six months as at** | **31 March 2015** | **31 March 2014** |
|---|---|---|
| No. of existing engagements | 4 | 3 |
| *Of which:* | | |
| No. that have existed for less than one year | 2 | 3 |
| No. that have existed for between one and two years | 2 | - |
| No. that have existed for between two and three years | - | - |
| No. that have existed for three and four years | - | - |
| No. that have existed for four or more years | - | - |

| **New off- payroll engagements, or those that reached six months duration during the financial year and are for more than £220 per day** | **2014-15** | **2013-14** |
|---|---|---|
| No. of new engagements, or those that reached six months duration | 2 | 4 |
| No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and national insurance obligations | 2 | 3 |
| No. for whom assurance has been requested | 2 | 3 |
| *Of which:* | | |
| No. for whom assurance has been received | - | 3 |
| No. for whom assurance has not been received | 2 | 1 |
| No. that have been terminated as a result of assurance not being received | - | - |

| **Board members, and/or senior officials with significant financial responsibility during the financial year** | **2014-15** | **2013-14** |
|---|---|---|
| No. of off- payroll engagements | 1 | - |
| No. of board members and/or senior officials with significant financial responsibility. This figure includes both off- payroll and on- payroll engagements. | 10 | 6 |

### e) Pension commitments

For 2014-15, employers' contributions of £10,474,000 were payable to the PCSPS (2013-14: £10,711,000) at one of four rates in the range 16.7 to 24.3% 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 2014-15 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 £79,000 were paid to one or more of a panel of two appointed stakeholder pension providers (2013-14: £67,000). 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 £7,000 (2013-14:£7,000). Contributions prepaid at that date were £nil (2013-14:£nil).

## Note 4 – Other operating charges

| | 2014-15 | 2013-14 |
|---|---|---|
| | £000 | £000 |
| Theory test contractor charges | 35,221 | 38,065 |
| Accommodation costs | 11,466 | 11,407 |
| Rentals under operating leases: buildings | 8,060 | 7,858 |
| Computer agency charges | 7,139 | 7,471 |
| Staff travel and subsistence | 4,458 | 3,858 |
| Administration costs | 3,770 | 3,273 |
| Shared service centre charges | 2,623 | 2,888 |
| Other contracted services | 2,451 | 2,344 |
| Enforcement services | 2,405 | 2,315 |
| Cost of periodic training approval | 1,350 | 1,345 |
| Credit card and bank charges | 1,226 | 1,165 |
| Other charges | 808 | 2,994 |
| Disclosure and Barring Service checks | 724 | 844 |
| Net increase / (decrease) in non-pay provisions required in the year (see note 11) | 407 | (708) |
| Auditors' remuneration and expenses | 70 | 70 |
| **Total other operating charges** | **82,178** | **85,189** |

## Note 5 – Finance costs

| | 2014-15 | 2013-14 |
|---|---|---|
| | £000 | £000 |
| Interest charges on loans from the Secretary of State | 415 | 1,427 |
| Interest charges on finance leases | 6,760 | 6,611 |
| Unwinding of discount on provisions | 1 | 26 |
| **Total finance costs** | **7,176** | **8,064** |

| **Dividend payable** | **2014-15** | **2013-14** |
|---|---|---|
| | £000 | £000 |
| Average capital employed | 86,299 | 76,865 |
| 3.5% return on capital employed | 3,020 | 2,691 |
| Less interest payable on loans from DfT | (415) | (1,427) |
| **Total dividend payable to DfT** | **2,605** | **1,264** |

The Secretary of State for Transport has determined financial objectives for the Driving Standards Agency. These were confirmed by Treasury Minute dated 9 June 2014, the text of which is reproduced at Annex A:

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 2014 to 31 March 2019.

| **Return on capital employed** | **2014-15** |
|---|---|
| | **£000** |
| Surplus for the year | 31,733 |
| Adjustment for interest charges on loans from the Secretary of State | 415 |
| Adjustment for asset impairment / write off | 1,980 |
| Adjustment for profit on asset disposal | (16) |
| Surplus on ordinary activities | 34,112 |
| Average capital employed | 86,299 |
| **Return on capital employed** | **39.5%** |

The return on capital employed (ROCE) calculation has been adjusted to align with DVSA methodology. The previous ROCE calculation, using the retained surplus for the year 2014-15 of £29,128,000 and after adding back interest charges and dividends for the year of £9,781,000 represents a ROCE of 45.1% of the average capital employed in the first year. This can be compared to the cumulative ROCE position for the previous Treasury Minute dated 3 June 2010 for the five year period of 1 April 2009 to 31 March 2014 which was 17.4%.

## Note 6 – Property, plant and equipment

| **2014-2015** | **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 2014 | 14,042 | 98,857 | 4,778 | 4,597 | 2,162 | 1,124 | 125,560 |
| Additions | - | - | 150 | - | - | - | 150 |
| Revaluations | 766 | (1,261) | 44 | 39 | - | - | (412) |
| Impairments | - | - | - | - | - | - | - |
| Reclassifications | - | 57 | (310) | - | 3 | (1,124) | (1,374) |
| Disposals | (176) | (5,206) | (152) | (410) | (2,165) | - | (8,109) |
| **At 31 March 2015** | **14,632** | **92,447** | **4,510** | **4,226** | **-** | **-** | **115,815** |
| | | | | | | | |
| **Depreciation** | | | | | | | |
| At 1 April 2014 | - | 12,812 | 4,046 | 4,052 | 1,916 | - | 22,826 |
| Charge for the year | - | 3,388 | 351 | 242 | 90 | - | 4,071 |
| Revaluations | - | (3,833) | 38 | 38 | - | - | (3,757) |
| Impairments | - | - | - | - | - | - | - |
| Reclassifications | - | - | (262) | - | - | - | (262) |
| Disposals | - | (3,106) | (153) | (405) | (2,006) | - | (5,670) |
| **At 31 March 2015** | **-** | **9,261** | **4,020** | **3,927** | **-** | **-** | **17,208** |
| | | | | | | | |
| **Carrying value** | | | | | | | |
| At 1 April 2014 | 14,042 | 86,045 | 732 | 545 | 246 | 1,124 | 102,734 |
| | | | | | | | |
| **At 31 March 2015** | **14,632** | **83,186** | **490** | **299** | **-** | **-** | **98,607** |
| | | | | | | | |
| **Asset financing** | | | | | | | |
| Owned assets | 14,632 | 19,716 | 490 | 299 | - | - | 35,137 |
| Enhancements to lease property | - | 16,273 | - | - | - | - | 16,273 |
| Finance leased assets | - | 47,197 | - | - | - | - | 47,197 |
| **Total carrying value at 31 March 2015** | **14,632** | **83,186** | **490** | **299** | **-** | **-** | **98,607** |

Included within the disposals categorisation are assets that have been transferred to assets held for sale (see note 8).

Included within the disposals categorisation are fixtures and assets which have been written down to nil value to align with the accounting policy of VOSA. The value of assets written down is £1,805,000 of modern leasehold building improvements and £159,000 of furniture and fittings.

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.

Property, plant and equipment were revalued by £3,345,000 (net) (2013-14: £5,494,000). Of this £4,465,000 (2013-14: £1,461,000) was taken to the Statement of Comprehensive Net Income operating costs and £(1,120,000) (2013-14: £4,033,000) was taken to other comprehensive net income.

The revaluation reserve shown within the Statement of Taxpayers' Equity has a closing balance of £17,831,000 (2013-14: £16,306,000) of which £17,618,000 (2013-14: £15,920,000) is property, plant and equipment with the remainder being intangible assets. This represents the net book value of assets revalued above their historic net book value.

As part of the transition from DSA to DVSA and to align with the VOSA policy, the agency amended its approach to valuation of Land and Buildings in 2014-15. The annual physical valuation of 20% of assets continued but the desktop valuation carried out by the Valuations Office Agency (VOA) for the remaining 80% did not. Had the 80% valuation been applied the impact to the assets at 31st March 2015 is estimated at an increase of £2,310,000.

| **2013-14** | **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 2013 | 14,916 | 93,576 | 5,227 | 5,050 | 2,290 | 211 | 121,270 |
| Additions | - | - | 324 | 52 | 10 | 1,110 | 1,496 |
| Revaluations | (588) | 5,181 | (435) | (460) | (138) | - | 3,560 |
| Impairments | (286) | - | - | - | - | - | (286) |
| Reclassifications | - | 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 |
| Revaluations | - | (1,066) | (369) | (385) | (114) | - | (1,934) |
| Impairments | (21) | - | - | - | - | - | (21) |
| Reclassifications | (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** |

| **Analysis of depreciation, amortisation and impairment line in Statement of Comprehensive Net Income** | **2014-15 £000** | **2013-14 £000** |
|---|---|---|
| Depreciation of property, plant and equipment | 4,071 | 4,161 |
| Depreciation of intangibles | 4,146 | 4,315 |
| Profit on disposal of assets | (16) | (152) |
| Net impairment of property, plant and equipment | - | 265 |
| Write-off of property, plant and equipment (shown in disposals above) | 1,980 | - |
| Revaluation of property, plant and equipment not taken to the revaluation reserve | (4,464) | (1,461) |
| Revaluation of intangibles not taken to the revaluation reserve | 148 | (808) |
| **Total depreciation, amortisation and impairment** | **5,865** | **6,320** |

## Note 7 – Intangible assets

| **2014-15** | **IT Software** | **Assets Under Construction** | **Total** |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| **Cost or valuation** | | | |
| At 1 April 2014 | 33,667 | 234 | 33,901 |
| Additions | 328 | 115 | 443 |
| Revaluations | 349 | - | 349 |
| Impairments | - | - | - |
| Reclassifications | 1,539 | (165) | 1,374 |
| Disposals | - | - | - |
| **At 31 March 2015** | **35,883** | **184** | **36,067** |
| **Amortisation** | | | |
| At 1 April 2014 | 24,546 | - | 24,546 |
| Charge for the year | 4,146 | - | 4,146 |
| Revaluations | 254 | - | 254 |
| Impairments | - | - | - |
| Reclassifications | 262 | - | 262 |
| Disposals | - | - | - |
| **At 31 March 2015** | **29,208** | **-** | **29,208** |
| **Carrying value** | | | |
| At 1 April 2014 | 9,121 | 234 | 9,355 |
| **At 31 March 2015** | **6,675** | **184** | **6,859** |

| **Asset financing** | **£000** |
|---|---|
| Owned Assets | 6,859 |
| Finance Leased | - |
| Contracts | - |
| **Total carrying value at 31 March 2015** | **6,859** |

| Analysis of IT software: | Remaining Life At 31 March 2015 £000 | Net book value At 31 March 2015 £000 |
|---|---|---|
| Certificate of Professional Competence | 1 years | 1,426 |
| Internet Booking System | 5 years | 1,397 |
| Testing and Registration System | 1 years | 1,087 |
| Others | 0 to 7 years | 2,949 |
| **Total** | | **6,859** |

Intangible assets comprise software licences and IT system developments. These assets are re-valued using appropriate published indices.

Intangibles were revalued upwards/(downwards) by £95,000 (net) (2013-14: £(1,194,000)). Of this £(148,000) (2013-14: £808,000) was taken to the Statement of Comprehensive Net Income operating costs and £243,000 (2013-14: £(2,002,000) was taken to other comprehensive net income.

If the intangible assets were valued at cost and not revalued, the historic net book value would be £6,659,000.

| **2013-14** | **IT Software** | **Assets Under Construction** | **Total** |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Cost or valuation** | | | |
| At 1 April 2013 | 36,150 | 655 | 36,805 |
| Additions | 78 | - | 78 |
| Revaluations | (3,053) | - | (3,053) |
| Impairments | - | - | - |
| Reclassifications | 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 |
| Revaluations | (1,859) | - | (1,859) |
| Impairments | - | - | - |
| Reclassifications | 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** |

| **Asset financing** | **£000** |
|---|---|
| Owned Assets | 9,355 |
| Finance Leased | - |
| Contracts | - |
| **Total carrying value at 31 March 2014** | 9,355 |

| Analysis of IT software: | Remaining Life At 31 March 2014 £000 | Net book value At 31 March 2014 £000 |
|---|---|---|
| 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** |

## Note 8 – Assets held for sale

| | 2014-15 £000 | 2013-14 £000 |
|---|---|---|
| At 1 April | 246 | 229 |
| Disposals of assets | (250) | (4) |
| Transferred in year as assets held for resale | 459 | 21 |
| **At 31 March** | **455** | **246** |

## Note 9 – Trade and other receivables

| Amounts due within one year | 31 March 2015 £000 | 31 March 2014 £000 |
|---|---|---|
| Trade receivables | 1,084 | 12,402 |
| Interest receivable | 7 | 17 |
| Recoverable VAT | 677 | 2,207 |
| Other receivables | 112 | 93 |
| Prepayments and accrued income | 2,795 | 3,366 |
| **Total** | **4,675** | **18,085** |

Included in the above are £2,396,000 (2013-14 £14,415,000) due from other central government bodies. £1,123,000 of accrued income as at 31 March 2014 has been transferred from other receivables to prepayments and accrued income.

During 2014-15 the agency received a ruling from HMT that it could no longer recover VAT from its outsourced theory test delivery. This is being challenged but a cautious approach has been adopted and the agency has not provided for the recovery of this amount, which accounts for the fall in the total Recoverable VAT balance in the table above.
There are no amounts due after more than one year.

## Note 10 – Trade and other payables

| Amounts falling due within one year | 31 March 2015<br>£000 | 31 March 2014<br>£000 |
|---|---|---|
| Accruals and deferred income | 39,534 | 48,695 |
| Current instalment on Secretary of State loans (see note 12) | 8,036 | 21,810 |
| Current part of finance leases | 5,627 | 5,421 |
| Other payables | 3,364 | 3,678 |
| Trade payables | 281 | 332 |
| **Total** | **56,842** | **79,936** |

Included in the above are £13,144,000 (2013-14 £29,846,000) due to other central government bodies.

**Amounts falling due after more than one year**

| | 31 March 2015<br>£000 | 31 March 2014<br>£000 |
|---|---|---|
| Finance leases | 45,761 | 45,094 |
| Deferred income | 4,180 | 3,688 |
| Other payables | 533 | 597 |
| **Total** | **50,474** | **49,379** |

## Note 11 – Provisions

| 2014-15 | Early Departure<br>£000 | Lease Obligations<br>£000 | Dilapidations<br>£000 | Legal claims<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|
| At 1 April 2014 | 56 | 578 | 912 | 293 | 1,839 |
| Provided in the year | 1 | 456 | 187 | 162 | 806 |
| Provisions not required written back | - | (6) | (212) | (180) | (398) |
| Provision utilised in year | (28) | (555) | - | (38) | (621) |
| Unwinding of discount | 1 | - | - | - | 1 |
| **At 31 March 2015** | **30** | **473** | **887** | **237** | **1,627** |
| **Analysis of expected timing of discounted flows** | | | | | |
| – Not later than one year | 22 | 258 | 887 | 237 | 1,404 |
| – Later than one year and not later than five years | 8 | 215 | - | - | 223 |
| – Later than five years | - | - | - | - | - |
| **At 31 March 2015** | **30** | **473** | **887** | **237** | **1,627** |

| 2013-14 | Early Departure £000 | Lease Obligations £000 | Dilapidations £000 | Legal claims £000 | Total £000 |
|---|---|---|---|---|---|
| At 1 April 2013 | 140 | 1,005 | 1,255 | 931 | 3,331 |
| Provided in the year | 5 | 72 | 8 | 134 | 219 |
| Provisions not required written back | - | (2) | (315) | (490) | (807) |
| Provision utilised in year | (92) | (504) | (52) | (282) | (930) |
| Unwinding of discount | 3 | 7 | 16 | - | 26 |
| **At 31 March 2014** | **56** | **578** | **912** | **293** | **1,839** |
| **Analysis of expected timing of discounted flows** | | | | | |
| – Not later than one year | 27 | 577 | 8 | 293 | 905 |
| – Later than one year and not later than five years | 29 | 1 | 904 | - | 934 |
| – Later than five years | - | - | - | - | - |
| **At 31 March 2014** | **56** | **578** | **912** | **293** | **1,839** |

Presentation of this note has been changed to be consistent with the agreed DVSA Accounts template.

## 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. The following fixed interest loans are outstanding at the yearend:

| | 31 March 2015 £000 | 31 March 2014 £000 |
|---|---|---|
| £10.0m loan issued in 2003-04, repayable over 15 years with interest at 4.9%* | 2,369 | 3,046 |
| £5.0m loan issued in 2005-06, repayable over 25 years with interest at 4.5%* | 3,000 | 3,200 |
| £5.0m loan issued in 2005-06, repayable over 25 years with interest at 4.45%** | - | 3,400 |
| £15.0m loan issued in 2006-07, repayable over 25 years with interest at 4.90%** | - | 10,800 |
| £5.0m loan issued in 2007-08, repayable over 15 years with interest at 4.54%* | 2,667 | 3,000 |
| £8.0m loan issued in 2008-09, repayable over 25 years with interest at 3.69%** | - | 6,400 |
| **Total Loans** | **8,036** | **29,846** |

* Loans repaid in full after the year end, in April 2015, shown in current loan instalment.

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

| | | |
|---|---|---|
| Amounts repayable: | | |
| – Current loan instalment (see note 10) | 8,036 | 21,810 |
| – In one to two years | - | 1,210 |
| – In two to five years | - | 3,293 |
| – After five years | - | 3,533 |
| Amounts due after more than one year (see SoCTE) | - | 8,036 |
| **Total Loans** | **8,036** | **29,846** |

## Note 13 – Commitments under leases

| Operating leases | 31 March 2015 | | | 31 March 2014 | | |
|---|---|---|---|---|---|---|
| | Land and Buildings | Other | Total | Land and Buildings | Other | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Minimum lease payments | | | | | | |
| – Not later than one year | 6,116 | 316 | **6,432** | 7,219 | 172 | **7,391** |
| – Later than one year and not later than five years | 20,933 | 651 | **21,584** | 21,572 | 309 | **21,881** |
| – Later than five years | 108,908 | - | **108,908** | 108,526 | - | **108,526** |
| **Total** | **135,957** | **967** | **136,924** | **137,317** | **481** | **137,798** |

Operating leases relate to all payments due under commercial leases and 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. Operating leases also include the land element of leases for multi-purpose test centres (see finance lease comments below).

Other 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 2015** | **31 March 2014** |
| | £000 | £000 |
| Minimum lease payments | | |
| – Not later than one year | 5,800 | 5,626 |
| – Later than one year and not later than five years | 24,622 | 23,985 |
| – Later than five years | 264,881 | 271,319 |
| Total payment obligations under finance leases | 295,303 | 300,930 |
| – Less interest element | (243,767) | (254,628) |
| **Total present value of obligations under finance leases** | **51,536** | **46,302** |
| | | |
| Present value of lease payments | | |
| – Not later than one year | 5,800 | 5,626 |
| – Later than one year and not later than five years | 16,151 | 14,230 |
| – Later than five years | 29,585 | 26,446 |
| **Total present value of obligations under finance leases** | **51,536** | **46,302** |
| | | |
| Carrying value of finance leases included within property, plant and equipment | **47,197** | **47,182** |
| | | |
| Receipts expected from sub-leases | **4,419** | **4,746** |

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 2015 | 31 March 2014 |
|---|---|---|
| | £000 | £000 |
| Contracted: | | |
| Property, plant and equipment | - | 41 |
| Intangible assets | - | 330 |
| **Total capital commitments** | **-** | **371** |

## Note 15 – Cash and cash equivalents

| | 2014-15 | 2013-14 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | 76,925 | 68,340 |
| Net change in cash and cash equivalent balances | 17,828 | 8,585 |
| **Balance at 31 March** | **94,753** | **76,925** |
| | | |
| The following balances at 31 March were held at | | |
| – Government Banking Services | 94,753 | 76,925 |
| **Balance at 31 March** | **94,753** | **76,925** |

## Note 16 – Financial Risk Management

***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 £99,428,000 (31 March 2014 £95,010,000) represents the maximum credit exposure.

***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*** – With the repayment of all loans in April 2015, the agency is not exposed to loan interest rate risk. 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 17 - 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 18 - 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). These are summarised below.

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 for 2014-15. This continued until the new legal trading fund was established on 1 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 Directing Board. All other income and costs have been accounted for in the respective agency to which they relate.

| | 2014-15 £000 | 2013-14 £000 |
|---|---|---|
| **Income** | | |
| DfT | 6,541 | 10,737 |
| VOSA | 1,588 | 120 |
| DVLA | 362 | 454 |
| Other Related Parties (MCA and Highways Agency) | 25 | 5 |
| **Total** | **8,516** | **11,316** |

| | 2014-15 £000 | 2013-14 £000 |
|---|---|---|
| **Expenditure** | | |
| DfT | 26,025 | 18,735 |
| VOSA | 2,232 | 1,600 |
| DVLA | 1,043 | 668 |
| Other Related Parties (MCA and Highways Agency) | 57 | 117 |
| **Total** | **29,357** | **21,120** |

The material transactions with DfT include receipts for recovery of salary and funding for the implementation of Department wide new modernised employment contract (MEC), Enforcement costs and a grant for practical test review. Payments to DfT are mainly for loan repayments (see note 12), interest on loans and dividend (see note 5). Other payments are for centralised support activities including Group HR and General Counsel's Office.

Material receipts from DVLA are for occupation charges and fees for conducting eyesight tests. Payments to DVLA are for CPC and DQC checks. Transactions with VOSA are broken down below.

| | 2014-15 £000 | 2013-14 £000 |
|---|---|---|
| **Sales to VOSA** | | |
| Management recharges | 967 | 81 |
| Projects | 459 | - |
| Joint Contracts | 95 | - |
| Rent, rates and other property charges | 41 | 39 |
| Training | 26 | - |
| **Total** | **1,588** | **120** |
| Amount due at 31 March | 289 | 38 |
| | | |
| **Recharges from VOSA** | | |
| Rent, rates and other property charges | 761 | 716 |
| Management recharges | 648 | 667 |
| Projects | 591 | - |
| CPC | 217 | 217 |
| Joint Contracts | 15 | - |
| **Total** | **2,232** | **1,600** |
| Amount owed at 31 March | 190 | 384 |

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.

During the year, none of the Directing Board or members of the key management staff or other related parties has undertaken any material transactions with the Driving Standards Agency (2013-14: Nil).

## Note 19 - Losses and special payments

Payments of £234,695 (2013-14: £3,125,682) were made during the year, in respect of 3,035 cases (2013-14: 2,421).

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 no such payments in excess of £300,000 (2013-14 two payments), which were made with HMT approval.

## Note 20 - Events after the reporting period

On 1 April 2015, the DVSA trading fund order (SI 2015/41) came in to force. This formally concludes the merging of VOSA and DSA in to a new single statutory entity, the Driver & Vehicle Standards Agency Trading Fund. SI 2015/41 also revokes previous Statutory Instruments drawing to a close the DSA trading fund. All of the assets and liabilities from the DSA trading fund have transferred to the DVSA trading fund.

There have been no other events since the 31 March 2015 to the date the accounts were authorised for issue which would affect the understanding of these accounts.

## Note 21 – Authorisation of Accounts

These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. IAS 10 requires DSA to disclose the date on which the Accounts are authorised for issue. This is the date on which the certified Accounts are despatched by DSA's management to the Secretary of State of the Department for Transport. The authorised date for issue is 24 June 2015.

**DRIVING STANDARDS AGENCY TRADING FUND**
**TREASURY MINUTE DATED 9 June 2014**

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 2014 to 31 March 2019 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 3 March 2010.

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.

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