Driver & Vehicle Standards Agency

DVSA Annual Report and Accounts

2017 - 2018

Helping you stay safe
on Britain's roads

HC 1346

Driver and Vehicle Standards Agency

Annual Report and Accounts 2017-18

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Foreword

Non-Executive Chair's introduction

2017-18 has been a very successful year as we embedded our five year strategy through establishing plans to support the three themes of helping you through a lifetime of safe driving, helping you keep your vehicle safe to drive and protecting you from unsafe drivers and vehicles. We have also put in place enabling strategies, for example around our people, infrastructure and technology.

Aligned to our strategy, we have a significant amount of change either underway or planned in the agency and 2017-18 was a year in which we focused on developing our staff and processes to ensure appropriate project governance and successful and timely delivery of our change portfolio now and in the future. We have made great strides in improving our project delivery through effective cost control and through installing a culture of flexibility to respond to changing stakeholder requirements and any emerging risks to delivery.

We continued on our journey of making DVSA a great place to work by ensuring that our staff are appropriately resourced, with the skills and tools to deliver our core services, thus playing a key role in our ultimate aim of safe drivers and vehicles on Britain's roads. In 2017-18 we have particularly focused on developing our expertise to build talent and succession capability within the agency and plan to invest in our workforce even more in future. DVSA is committed to investing in developing apprentices both from within the business and recruiting new external apprentices, one of whom won the Department for Transport (DfT) Apprenticeship of the year award.

We have also taken an ambitious step in how we look at sustainability as an organisation and have developed a new strategy that builds on activity to date but importantly takes a much broader view of sustainability than we applied before, now going beyond compliance, regulations and Greening Government Commitments.

In my first year as non-executive Chair of the DVSA Board, I am pleased to report that there has been robust adherence to internal control processes to ensure successful delivery of our objectives. In 2017-18 we were awarded the Chartered Institute of Procurement and Supply (CIPS) Corporate Certification Standard for our commercial documentation. CIPS is the leading institute in excellence in procurement and supply. This is a real achievement for DVSA and provides independent assurance of our commercial policies, process and procedures.

I look forward to the opportunities ahead and to working together with our Board and staff in delivering our Strategic Plan, in helping keep our roads safe, and playing our part on the journey to make our agency a great place to work for everyone.

Bridget Rosewell
DVSA Non Executive Chair

Chief Executive's introduction

Along with my Chair, Bridget, I am delighted to present our Annual Report and Accounts for 2017-18.

I am immensely proud of the commitment and professionalism of colleagues across DVSA who work so hard to ensure people stay safe on Britain's roads. In the past year, we delivered all operational performance targets that relate to our three strategic themes, this in spite of the impact of adverse weather. During the past year we have also made significant progress in implementing improvements to all the services we provide to our customers.

In December, we introduced the biggest change to the practical driving test for a decade to better reflect the way we drive today, including introducing the use of satnavs. The implementation of the new test was a great success and will help ensure new drivers are better able to drive safely in today's environment.

While delivering this significant change, we also continued to deliver a timely service to candidates - achieving our new commitment for at least 80% of candidates being able to book their test within 6 weeks of their preferred date. At the same time, we also ensured that waiting times for motorcycle and vocational tests remained at the low levels we achieved in 2016-17 through the continued efforts of our staff.

I'm really pleased to report that this year also saw the development of a number of digital improvements ultimately benefiting both our staff and customers. We have equipped our frontline enforcement staff with smartphones with apps that have been developed by our in-house team. The Search app, for example, enables our staff to identify the status of vehicles on the road more accurately and quickly, helping them target those vehicles needing closer scrutiny.

We have also trialled and started to roll out tablets for our driving examiners so that they will have immediate access to agency systems. During the coming year we aim to record test results digitally providing both a better customer service and more insight into where candidates need to improve their training.

We are also in the early stages of digitising the annual test for heavy goods vehicles (HGV), buses and coaches – this will be the start of a number of digital improvements to this service.

We've worked closely with the commercial vehicle industry to progress work on an earned recognition scheme and in January published the list of operators who have helped develop the scheme. The scheme went live in April 2018 enabling those compliant operators to go about their business unhindered and enabling us to focus resources on those choosing to flout the law. We also made good progress in work to identify where garages are carrying out fraudulent activity.

The introduction of new technology contributed to the detection of over 28,000 serious defects, on HGVs and Public Service Vehicles (PSV) including tachograph manipulation and emissions cheat devices. We will continue to protect the public from this fraudulent activity.

We have made further improvements to our services on www.gov.uk including links to information on Approved Driving Instructors, MOT garages and vehicle recalls. In addition to these services, we now have over 700,000 users registered for the MOT reminder service, helping to reduce the number of vehicles on the road without a valid MOT.

We delivered our surplus and our dividend, and exceeded the return on capital target set by Government and have continued to invest to support our 5 year strategy. We invested in commissioning new operational sites, in Information and Communications Technology (ICT) and enforcement vehicles. This year also saw the successful implementation of a new SAP shared services platform enabling our staff to have simplified and standardised access to human resources, financial and procurement services.

We continue to ensure our services are efficient, and are pleased we were able to keep the cost of a driving test unchanged for the 8^{th} year and our cost of the MOT unchanged since 2010. We have commenced a review of the services provided to the Traffic Commissioners and have also laid the ground for a broader review of fees to ensure we can meet our aim of being financially self-sufficient at the end of our strategy period.

Our staff engagement score improved for the second year and we continue to work hard to make DVSA a great place to work for everyone. I would like to take this opportunity to thank all colleagues who have contributed to another challenging yet highly successful year in DVSA.

Gareth Llewellyn
DVSA Accounting Officer and Chief Executive

Performance Report

Overview

The Annual Report and Accounts set out the performance and achievements of the Driver and Vehicle Standards Agency (DVSA) for the year 2017-18. It should be read in conjunction with DVSA's Business Plan 2017-18, which sets out our key plans and targets. This report covers the agency's accounting period for the year ended 31 March 2018.

This Performance Report section provides high level information about the agency, its purpose, the key risks to achieving its objectives and its performance during the year. It is followed by the Accountability Report (page 19), which meets key accountability requirements to Parliament, and the Accounts (page 43).

The Driver and Vehicle Standards Agency is an executive agency of the Department for Transport (DfT).

Our vision is for safer drivers, safer vehicles and safer journeys for all. We help you stay safe on Britain's roads by:

- helping you through a lifetime of safe driving
- helping you keep your vehicle safe to drive
- protecting you from unsafe drivers and vehicles

These are the three key themes of our five year strategy (2017 to 2022) which is available at, https://www.gov.uk/government/publications/dvsa-strategy-2017-to-2022.

Our organisation is structured so that we put road safety at the heart of everything we do, while giving our customers the best possible user experience and striving to make sure our services offer value for money. We employ around 4,600 people across Great Britain.

Our core activities are aligned with our three key strategic themes.

To help you through a lifetime of safe driving, we:

- carry out theory tests and driving tests for people who want to drive cars, motorcycles, lorries, buses and coaches, and specialist vehicles
- approve people to be driving instructors and motorcycle trainers, and make sure they provide good-quality training
- approve courses for qualified drivers, such as Driver Certificate of Professional Competence (CPC) courses for lorry, bus and coach drivers, and drink-drive rehabilitation courses

To help you keep your vehicle safe to drive, we:

- approve people to be MOT testers and approve the organisations they work for, and make sure they test to the right standard

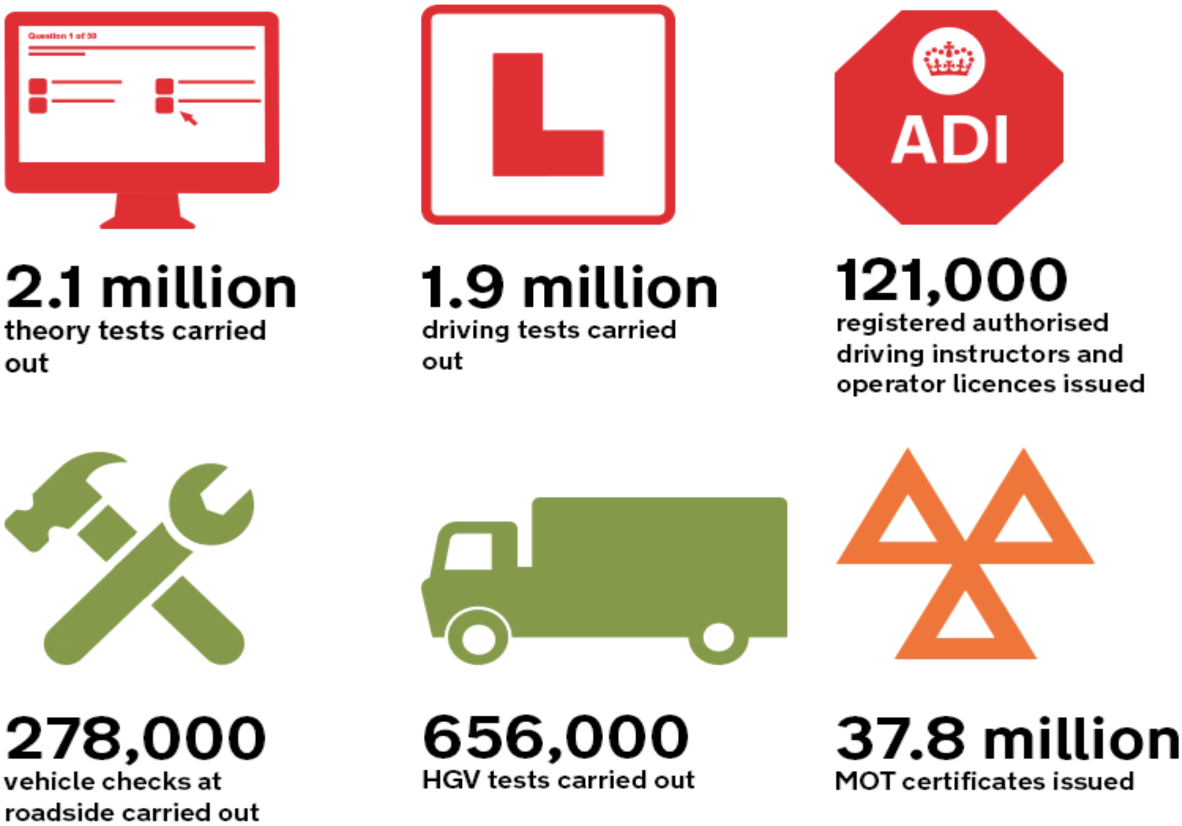
- carry out tests on lorries, buses and coaches and trailers to make sure that they are safe to drive
- publish information online to help you look after your vehicle, and to show how well a vehicle has been looked after
- inspect imported, assembled or manufactured vehicles, such as amateur built cars, to make sure they are designed and built safely

To protect you from unsafe drivers and vehicles, we:

- carry out checks on commercial drivers and vehicles to make sure they follow safety rules
- monitor recalls of vehicles, parts and accessories to make sure that manufacturers fix problems quickly
- support the Traffic Commissioners for Great Britain and the Northern Ireland transport regulator to license and monitor companies who operate lorries, buses and coaches

Performance Highlights

The scale and breadth of our key activities in the year ended 31 March 2018 is illustrated below:



The services that DVSA delivers to its customers are critical to the safety of everyone on our roads. We take the management of the risks associated with delivering those services seriously and have a process to ensure that risks and issues are addressed at the appropriate level in the agency. Our risk management processes and our key risks are set out in the Governance Statement on page 21.

Performance Analysis

Our key performance measures in the year ended 31 March 2018 were designed to measure the delivery of our core road safety objectives. They were set out in our 2017-18 Business Plan at the start of the accounting period, and the DVSA Board monitored performance against these measures each month during the year, identifying risks to delivery and putting in place mitigating actions. Our performance during the year, including achievement against these measures, is described below.

Helping you through a lifetime of safe driving

Measure	Target	Outcome	
Deliver plans including establishing measures for the strategic theme: Helping you through a lifetime of safe driving	By December 2017	Achieved Dec 2017	Achieved
80% of candidates book their practical driving test within 6 weeks of their preferred date	80%	81.1%	Achieved
Offer candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date	95%	96.8%	Achieved

Better training and information for drivers

The agency implemented improvements to ‘Find driving schools, lessons and instructors’ service on www.gov.uk. Users can search for an Approved Driving Instructor (ADI) by location and can click through to their websites.

The agency has modernised the ADI qualification process to give a better assessment of the trainee instructor’s ability. The ADI test has been updated to reflect the changes to the new driving test and is now a competency-based assessment.

Raising driving standards

Following a successful trial the agency implemented changes to the car practical test to reflect modern day driving, where candidates demonstrate the ability to use a satnav whilst driving, complete more relevant manoeuvres, and demonstrate how they deal with real-life distraction by carrying out a safety task on the move. The new test is designed to provide a more realistic driving experience.

The agency has updated the database of multiple choice questions used for the car theory test.

The agency has investigated other ways of helping young and novice drivers including exploring the use of voluntary electronic driving log books.

Improving test availability

Following work in 2016-17 to reduce waiting times for car pratical tests, the agency continued to improve test availability, with 81% of candidates able to book their test within 6 weeks of their preferred date. Over 180 new driving examiners were recruited to help achieve this. We also made further improvements to the waiting times for both vocational and motorcycle tests with the performance significantly better than the agreed service levels.

The agency continues to look for ways to involve third party providers in delivering services. Following a successful trial last year, the driver CPC module 4 (vehicle safety checks), a necessary qualification to become a professional driver, is now primarily delivered by external assessors.

Keeping your vehicle safe to drive

Measure	Target	Outcome	
Deliver plans including establishing measures, for the strategic theme: Helping you keep your vehicle safe to drive	By December 2017	Achieved Dec 2017	Achieved
Increase by at least 15% from 2016-17 the number of MOT cases where we act upon serious fraud, dishonesty or negligence	+15% By March 2018	+35.0%	Achieved

Better information for drivers and vehicle testers

The agency has continued to invest in the MOT service. Improvements have been made to the MOT history information service which allows people to access MOT records and this now includes information on outstanding vehicle recalls and heavy goods vehicle data.

The agency has enhanced the MOT reminder service which helps drivers get their MOT tests on time. Almost 700,000 users are now registered for the service.

The agency has continued to improve the MOT testing service to support MOT managers and testers. This has included improving the availability of defect information.

The agency has continued to improve and develop the model for in year training for the MOT trade, by introducing new topics to improve test quality, and to equip testers to deal with new vehicle technologies.

The agency significantly exceeded its target to act on MOT cases involving serious fraud, dishonesty or negligence. This was due to improvements in the way that enforcement activity is targeted which included the formation of a separate Enforcement directorate.

Raising vehicle standards

EU regulations (2014/45/EU for periodic test inspection and 2014/47/EU for technical roadside inspection), known as EU Roadworthiness Directives were implemented in May 2018. In preparation for these changes the agency has updated the vehicle testing and enforcement standards including making necessary changes to the MOT system and heavy vehicle testing systems. This includes publishing revised versions of inspection manuals and communicating all changes including those changes to HGV exemptions. The agency has also worked with MOT garages and Authorised Testing Facilities (ATFs) to upgrade diesel smoke detectors in readiness for the emissions standards changes.

The agency has worked on a number of measures to address vehicles that are not compliant with emissions standards including working with DfT to improve the annual vehicle test so that it enables us to better measure emissions across all vehicle types.

Carrying out testing

The agency has embarked on the first phase of the commercial vehicle services transformation programme to improve our vehicle testing services. A digital test result capture pilot and an ATF payment prototype are currently being trialled.

The agency has completed the targeted recruitment of over 70 vehicle standards assessors to enhance test availability in certain regions where there have been issues recruiting to demand. This has included changes to recruitment and selection methods as well as other broader initiatives such as developing a network of DVSA ambassadors to attend careers fairs, schools and colleges.

Protecting you from unsafe drivers and vehicles

Measure	Target	Outcome	
Deliver plans including establishing measures, for the strategic theme: Protecting you from unsafe drivers and vehicles	By December 2017	Achieved Dec 2017	Achieved
Improve the availability of online data on vehicle recalls to better meet motorists' needs, including through our MOT services	By December 2017	Achieved Dec 2017	Achieved
Detect serious roadworthiness defects and traffic offences	+15% against 2016 to 2017 target	+ 41.6%	Achieved

Better information for drivers and operators

The agency has revised and updated the DVSA Guide to Maintaining Roadworthiness which explains the responsibilities and systems involved in maintaining vehicles in a roadworthy condition. This was endorsed by trade associations and published in April 2018.

Raising standards for vehicle operators and manufacturers

The agency has piloted an earned recognition scheme, where operators share performance information with DVSA, such as vehicle maintenance records and data on drivers' hours and rest times. Operators who continue to meet the required standards are less likely to have their vehicles stopped at the roadside for inspections or their premises visited by enforcement staff. This scheme, which enables DVSA to target its enforcement efforts more on persistently non-compliant operators, was subsequently officially launched on 24 April 2018 at the Commercial Vehicle Show at the NEC, Birmingham.

The agency has worked with DfT, the Vehicle Certification Agency (VCA) and specialist laboratories to undertake a programme of targeted emissions testing aimed at checking that manufacturers are meeting relevant emissions and type approval standards. The results will be published in 2018-19.

Enforcing the standards

During the year legislation was changed to enable staff to record and process drivers' infringements for historic offences. This enables the agency to better enforce standards on the persistently non-compliant.

The agency has worked with The Society of Motor Manufacturers and Traders (SMMT) to include information on vehicle recalls within the MOT history service. An announcement in our newsletter service, DVSA Direct, titled 'Check for a safety recall before buying a new car' and ongoing social media activity have significantly increased traffic to the service.

During the year the agency restructured the Counter-Fraud and Investigation team to support the Counter Fraud Strategy and the in-housing of investigations that were previously contracted out. The agency prosecuted 1,038 cases, an increase from 787 in 2016-17, with 1,258 defendants leading to 4,015 offences upheld.

The agency has significantly increased the number of traffic offences detected, exceeding its target to detect at least 15% more serious roadworthiness defects and traffic offences. This was achieved through investment in new tachograph tools which allow traffic examiners more accurate and faster access to information on driver's hours offences, along with the introduction of the historical offences sanction.

Delivering for our customers

Measure	Target	Outcome	
Deliver the government's market surveillance test programme	By March 2018	Delivered March 2018	Achieved
Freedom of Information Act – provide a response within 20 working days	93%	100%	Achieved
Parliamentary questions – provide a response by due date	100%	100%	Achieved
Ministerial correspondence – provide a response within 8 working days	100%	100%	Achieved
Official correspondence – provide a response within 20 working days	80%	100%	Achieved
Ensure the proportion of complaints not resolved at first contact does not exceed 2016-17 outturn	≤ 5.8%	7.6%	Not achieved

Customer services

The overall number of complaints has reduced year-on-year by 24.4%, from 8,510 down to 6,435 which has resulted in the complaints that remain tending to be of a more complex nature. This means that those needing escalation has risen from 5.8% to 7.6%. The agency continues to focus on improving customer satisfaction and resolving all customer complaints as quickly as possible.

During the year the agency has invested in enhancements to the contact centre including creating a single virtual centre that brings together the services being delivered from several sites. The Customer Service Centre retained accreditation standards with both the Customer Contact Association and Customer Service Excellence.

The agency is delivering an extensive programme of works upgrading its Driving Test Centre properties to better meet customer needs and provide a suitable working environment for our staff.

The findings from the agency's market surveillance testing work during the year can be found via the following link:
https://www.gov.uk/government/publications/vehicle-market-surveillance-unit-programme-results-2017

Delivering value for money

Measure	Target	Outcome	
Deliver a financial surplus from performance of our activities in line with the budget for the year ended 31 March 2018	Surplus of £1.4m	Surplus of £13.8m	Achieved
Deliver the efficiency savings from agency running costs as agreed in the Comprehensive Spending Review 2015 (2017-18 target)	£8.6m	£8.8m	Achieved
By 31 March 2018 DVSA staffing will be no more than 4,678 (full time equivalent), based on current forecast demand for services	4,678	4,561	Achieved
To reduce the average number of working days lost (per FTE) due to sickness by 0.5 days against the 2016-17 baseline	9.81	10.37	Not achieved
Payment of invoices within 5 working days	80%	93.2%	Achieved

Information and communication technology

The agency has continued to invest in modernising its information and communications technology to improve services to customers. This includes technology to enhance the MOT service and to provide tools to support roadside enforcement activities. The programmes to modernise the systems that support our services for commercial vehicles, drivers and riders have remained on track.

This will safeguard services for the future and provide enhancements to customers.

Staff effectiveness has been enhanced through the introduction of various in-house developed smartphone apps. These include an app that provides real-time information on the status of HGVs and PSVs at the roadside, and an app to analyse digital tachograph records. This enhances the efficiency of collecting penalties levied at the roadside.

Staff

The agency achieved its headcount target but continues to experience some difficulties in attracting suitable new staff. As at 31st March there were 293 unfilled positions in the organisation, potentially impacting service delivery.

The average number of working days lost (per FTE) due to sickness is 0.56 higher than target. The agency launched a number of initiatives designed to improve performance including revised procedures for absence management, an agency-wide health screening initiative and a physiotherapy scheme designed to reduce absences due to musculoskeletal problems.

The agency has worked to improve management capability at all levels of the organisation by implementing a new management development programme, a senior leadership programme and by introducing Management and Leadership apprenticeships.

During the year there were 44 new apprenticeships helping staff develop crucial skills in a broad range of areas.

Shared services

The agency completed the migration to a new SAP shared services platform in 2017. This has reduced duplication, unified legacy systems and simplified business processes for Finance, HR and Procurement, and delivered consistent ways of working to the agency's workforce.

Financial performance

Total income for the year was £387.6m (2016-17: £393.5m), which is slightly below both budget and last year. This is due to the impact of adverse weather in March 2018 on testing volumes and a reduction in Government funding for Enforcement activities.

Fees for driving tests have not increased since 2009 and fees for vehicle tests and MOT slots have not increased since 2010. This is equivalent to fee reductions in real terms of 14% and 11% respectively.

Total expenditure for the year was £373.8m pre-dividend (2016-17: £362.8m), which was below budget. Expenditure has increased primarily due to work in support of the delivery of the DVSA strategy. This includes expenditure to support delivery of modern technology systems, enhancements to the estate and migration to a new shared services platform. An analysis of financial performance by activity is provided in note 2 to the Accounts.

The agency delivered £8.8m in efficiency savings as agreed in the Comprehensive Spending Review 2015. Savings were made primarily on the theory test, vehicle testing and ICT services.

The agency has continued to invest to support its strategy. Capital expenditure for the year was £20.6m. Of this, £13.4m was invested in IT software, including enhancements to the MOT system, as well as initial design work on system modernisation for other key services. £7.2m was invested in tangible assets, which includes commissioning new operational sites, relocating sites to increase capacity and improve customer service and investing in ICT hardware and enforcement vehicles. Capital expenditure has been largely funded from cash generated from operations. More details are given in Notes 6 and 7 to the Accounts.

As a result, the agency has delivered a post-dividend surplus of £13.8m for the year (2016-17: £30.7m), against a budgeted figure of £1.4m. This will be used to:

- continue to invest in replacing customer-facing systems to improve the customer experience and to move them on to modern technology systems

- improve customer-facing systems to meet customer expectations, for example, by upgrading our driver and rider services IT system, and to invest in delivering our services at a time and place which suits our customers

- rationalise and modernise our estate to support a modern service delivery model and release capital

- increase our focus on the serially non-compliant and to reduce the regulatory burden on the safest operators

- fund the projects that deliver the efficiency savings that we have committed to in the Comprehensive Spending Review 2015. In the medium and longer term we are seeking further efficiency savings to offset – as far as possible - any fee increases that may be necessary to cover the costs arising from the investments in modernising services

- continually improve modernised technology services to meet user needs, for example, our continuous improvement of the MOT service and Vehicle Operator Licensing service

- invest in modernising internal systems to improve efficiency

Using the surplus in these ways means that we will improve our services to customers and that we will be able to improve road safety.

Delivering sustainably

Sustainable Development Strategy

This year DVSA has developed a new Sustainable Development Strategy. It takes a broader view of sustainability going beyond compliance, regulations and Greening Government Commitments. It will be published in 2018-19.

Information on some of the agency's current activities in the area of sustainability is provided in Annex B.

Greening Government commitments

The Greening Government commitments originally set sustainability targets that central government departments and their agencies must meet by 2015. These were extended to cover the period up to 2020.

The table below summarises the agency's current performance against the Greening Government Commitment targets (2016 – 2020):

Measure	Greening Government Commitment	2009-10 Baseline	2017-18 Target	2017-18 Outturn	Change from baseline
Greenhouse gas emissions	By 2020, reduce total carbon emissions by 36% of 2009-10 levels (tCO_{2e})	15,748	9,488	8,302	(47%)
	By 2020, reduce the number of domestic business flights by more than 30% of 2009-10 levels	2,742	1,589	450	(84%)
Water use	By 2020 reduce water use to $6m^3$/FTE	8.7	6.5	9.5	9%
Waste arising	By 2020, reduce the overall amount of waste (tonnes)	1,902	1,066	666	(65%)
Waste to landfill	By 2020, reduce waste to landfill to 10% or less	84%	50%	44%	(40 percentage points)
Paper	By 2020, reduce paper use by 50% of 2009-10 levels (A4 reams)	40,772	11,410	20,727	(49%)

Greenhouse gas emissions are ahead of target driven by an increasingly efficient fleet and significant changes in travel behaviours supported in part by use of technology.

Water use is behind target. Consumption has been investigated at over 80 sites and the agency continues to focus on sites exceeding benchmark consumption. Water services are being modernised at sites where possible and high water use is tackled through staff engagement and other works.

Waste arising has reduced by 65% compared with 2009-10. Waste to landfill has reduced by 1,306 tonnes. Carbon emissions have been reduced by 47% compared with 2009-10.

Paper use is behind target due in part to replenishing stock levels. All paper used in the agency is from sustainable sources and waste paper is processed through closed loop recycling.

More details on environmental performance are provided in the Sustainability Report 2017-18 in Annex B.

Chief Executive and Accounting Officer
26 June 2018

Accountability Report

Overview

The Accountability Report consists of the:

- Corporate Governance Report
- Remuneration and Staff Report
- Parliamentary Accountability and Audit Report

The purpose of the Corporate Governance Report is to explain the agency's governance structures and how they support the achievement of the agency's objectives.

The Remuneration and Staff Report sets out the agency's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors. It also provides information about staff numbers and staff remuneration, as set out in the Government Financial Reporting Manual 2017-18 (https://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018).

The Parliamentary Accountability and Audit Report brings together the key parliamentary accountability documents within the Annual Report and Accounts.

Corporate Governance Report

The Corporate Governance Report has three parts: the Directors' Report, the Statement of Accounting Officer's Responsibilities and the Governance Statement.

Directors' Report

The 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 2017-18, to report on the governance, remuneration, performance and staff issues.

Information about the directors who served on the DVSA Board in the year ended 31 March 2018 is set out in the Governance Statement.

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

There have been no incidents of loss or misuse of personal data reported to the Information Commissioner's office in the year ended 31 March 2018.

Statement of Accounting Officer's Responsibilities

DVSA is an executive agency of the Department for Transport and operates as a Trading Fund. Under Section 4(6)(a) of the Government Trading Funds Act 1973, HM Treasury has directed DVSA to prepare for each financial year, a statement of accounts ("the Accounts") in the form and on the basis set out in the Accounts Direction and as stipulated in Dear Accounting Officer letter DAO (GEN) 04/17.

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 DVSA as at 31 March 2018 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 FReM, and appropriate accounting standards 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 Accounts
- prepare the Accounts on a going concern basis

HM Treasury has appointed DVSA's Chief Executive as the Accounting Officer for the agency Trading Fund. 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 DVSA's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money (https://www.gov.uk/government/publications/managing-public-money).

Disclosure of audit information

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 the agency's auditors are aware of that information.

Responsibility for the Annual Report and Accounts

The Accounting Officer has confirmed that the Accounts as a whole are fair, balanced and understandable and that he takes personal responsibility for the Annual Report and Accounts and the judgments required for determining that this document is fair, balanced and understandable.

Governance Statement

Accounting Officer's Introduction

The Permanent Secretary of DfT has appointed me as Chief Executive and Accounting Officer for DVSA. As Accounting Officer, I have responsibility for the proper, effective and efficient use of public funds and may be required to appear before Parliamentary Select Committees. I am accountable to the Minister for the performance of DVSA in accordance with the framework document, which sets out the accountability and key relationships between DVSA and DfT. I am also required as Accounting Officer by HM Treasury's Managing Public Money and the Government Financial Reporting Manual to provide a statement on how I have discharged my responsibility to manage and control the resources for which I am responsible during the year.

This Governance Statement outlines the approach to delivering effective corporate governance for the agency in the year ended 31 March 2018.

Governance structure

I have ensured that our governance framework is designed to comply with the good practice guidance laid down in HM Treasury Corporate Governance in Central Government Departments: Code of Good Practice 2011 ("the Code").

Governance Framework

DVSA follows the arrangements set out in agreement with DfT in its framework document. This framework identifies how the agency's 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 Code.

DVSA's annual business plan for 2017-18 was submitted to the Minister for endorsement of the agency's key performance measures. Progress against the measures has been reported regularly to DfT's Director General of Roads, Devolution & Motoring via the Motoring Services Board.

The Board

The DVSA Board is responsible for setting the strategic direction of the agency. This was the first year of being chaired by a Non-Executive Chair to ensure both strategic and business oversight of business objectives, key risks and governance responsibilities. The Non-Executive Chair was appointed by the Secretary of State. Her principal responsibility is to chair the DVSA Board with the purpose of guiding, supporting and challenging the strategic direction of the agency. Non-Executive Directors provide independent advice to inform the decision making process.

Audit & Risk Committee

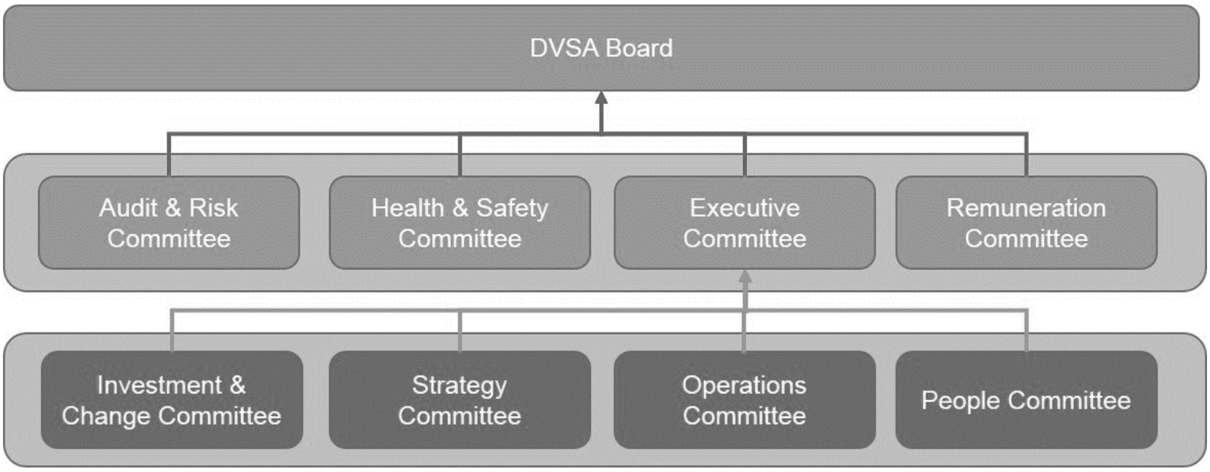
The Board is supported by the Audit and Risk Committee, also chaired by a Non-Executive Director, which is responsible for reviewing the comprehensiveness of assurance systems and processes and for advising on issues of risk, control and governance.

Health & Safety Committee

The Board is supported by the Health and Safety Committee, also chaired by a Non-Executive Director to advise the Board on matters of health and safety policy, structure and communication, reviewing these against legal obligations. Incidents and near misses are also investigated and reported.

Executive Committee

The Executive Committee is responsible for the day to day management of the agency. The agency's high level governance structure and the Committees that support the Executive Committee are illustrated below.



2017-2018 Board & Committee attendance

	DVSA Board Meetings attended/Eligible meetings	**Audit & Risk Committee** Meetings attended/Eligible meetings	**Health & Safety Committee** Meetings attended/Eligible meetings
Current Board members			
Bridget Rosewell – Non Executive Chair	10/11	n/a	2/2
Ian Baulch-Jones – Non Executive Director (from 28 November 2017)	3/3	1/1	n/a
Shrinivas Honap - Non Executive Director	10/11	6/6	n/a
Fiona Ross - Non Executive Director	10/11	6/6	3/3
Gareth Llewellyn - Chief Executive	11/11	6/6	5/5
Peter Hearn - Director of Operations (North)	11/11	n/a	5/5
Richard Hennessey – Director of Operations (South)	10/11	n/a	5/5
Adrian Long - Director of People, Communications & Engagement	9/11	n/a	5/5
Helen Milne – Director of Finance & Corporate Services	10/11	6/6	n/a
James Munson - Director of Digital Services & Technology	7/11	1/1	n/a
Previous Board members			
Geraldine Terry - Non Executive Director (until May 2017)	1/1	1/1	n/a

The Remuneration Committee did not meet during the period.

Wider Governance

The agency is sponsored by DfT. Through regular reporting and attendance at the DVSA Board, the DfT representatives help to ensure that sufficient priority is afforded to operational delivery, progress towards business plan objectives and the management of risk.

In addition, the agency reports regularly to DfT on performance, on progress towards financial targets including efficiency savings, on risks and issues, and on other key activities. These reports are considered at the DfT Executive Committee and Group Audit and Risk Committee as appropriate.

Risk Management

DVSA applies the DfT Risk Management Policy and HM Treasury guidance to identify and manage risks. The DVSA Board makes sure that the agency has an appropriate risk framework so that opportunities and threats can be assessed and well managed.

Risk management is integral to the agency's planning, governance and quality assurance processes. The agency has implemented an integrated risk management process. Risks are identified and managed at several different levels and captured on a standard template, which is reviewed monthly by the Executive Committee and DVSA Board and on a quarterly basis by our Audit & Risk Committee. Significant risks are escalated to DfT in order to warn, to inform or to seek support in accordance with guidance set by the Department and HM Treasury.

In addition to the inherent risks that we will always monitor, such as road safety testing standards, cyber security and health and safety, the key areas of risk monitored by DVSA this year were:

- Industrial Relations – ensuring the impacts on the services we provide as an agency to our customers were minimised
- ICT Transformation – ensuring we have the resources, contracts, security and services we require to deliver our technological transformation
- EU Exit – ensuring mitigation plans are in place to deliver the necessary process and system changes, together with our existing and any new enforcement commitments resulting from potential agreements
- Staff Recruitment and Retention – delivering services to customers and delivering the agency's change programme. The mitigating actions included the recruitment of permanent staff, including apprentices and reviewing the agency's recruitment process to attract more appropriate candidates

Assurance Mechanisms and Controls

There are a number of internal control processes which provided a framework for managers and staff to successfully and efficiently deliver DVSA's objectives. The main assurance mechanisms are:

a) The management assurance process

Executive Directors complete management assurance statements to assess the effectiveness of internal controls within their Directorates. The statements are a key part of the governance framework and the responses are challenged by internal audit, the Executive Committee and DfT and are signed off by DVSA's Audit and Risk Committee. They are then reported to the DfT Group Audit and Risk Committee which considers them to be a primary source of assurance of good governance.

In the year ended 31 March 2018, this process provided evidence to DfT to support moderate or substantial assurances in all 37 aspects of assurance except for Succession

Planning and Workforce Planning, which scored as limited assurance. The backlog of work in these areas is being addressed through the recruitment of a Head of Workforce Planning and a Head of Talent & Capability plus two small teams. They will develop overarching strategic approaches for both areas which will include a phased rollout plan for workforce planning and the creation of succession plans for all critical roles across the agency.

b) Information security procedures

DVSA's data and information handling procedures comply with statutory and regulatory requirements. The agency seeks to comply with HM Government Security Policy Framework, together with Cabinet Office's 10 Steps to Cyber Security, and Good Practice Guides published by The National Cyber Security Centre. DVSA's Senior Information Risk Owner is a member of the DVSA Board. A network of trained Information Asset Owners review access controls on a quarterly basis and are supported by business partners who are specialists in information security. The agency has taken steps to ensure it complies with the General Data Protection Regulation (GDPR) requirements.

c) Project and portfolio assurance

The agency has an assurance function which provides independent assurance across DVSA's portfolio of projects and programmes. This assurance function includes a risk based approach to assigning tiered controls. The agency adheres to the DfT Programme and Project Management Centre of Excellence requirements in respect of advice and monitoring of processes and performance. Based on Prince2 methodology, the assurance function tracks all recommendations from Programme and Project Health Checks, Gateway Reviews, and audits against our change pipeline. It reports on progress to the Investment and Change Committee.

d) Financial management and stewardship

DVSA follows all governance and assurance processes as required by HM Treasury and is audited by the National Audit Office. Financial delegations have been vested in the Accounting Officer by DfT. There is a robust delegated approval structure that is controlled through the procurement and financial information systems. Budgetary controls are supported by a robust monthly planning, reporting and forecasting cycle which is overseen by the DVSA Board.

e) Fraud, bribery and whistleblowing processes

DVSA is committed to protecting the integrity of the driver and vehicle testing and compliance services. The agency maintains both fraud and bribery, and whistleblowing policies that are owned by the DVSA Board and comply with Cabinet Office and DfT guidance.

Reports are regularly submitted to the Audit and Risk Committee. All reported instances of fraud and bribery are fully investigated. All fraud and whistleblowing cases are appropriately reported to the Audit and Risk Committee.

The DfT Whistleblowing and Raising a Concern Policy is available to all staff online.

Internal audit

The following statement has been provided by the agency's Head of Internal Audit.

"Internal Audit, operating to Public Sector Internal Audit Standards, is provided by the Government Internal Audit Agency which provides a qualified audit team to complete a programme of audits.

The audit programme for the last three years has focussed on areas of transformation and high risk which has led to a number of reports addressing the framework and control environment the organisation uses in order to manage its risks.

These audits have identified significant changes to the way the agency manages services via contracts and the governance and programme and project management framework in place to manage its modernisation and transition into the digital environment.

The audit programme for 2017-18 continued to test these revised control environments with a series of follow-up audits and further targeted audit work. During 2017-18 the agency migrated its accounting system to SAP, continued with development of MOT2 phase C and with major development work on digitalisation of commercial vehicle services and modernisation of driver and rider services.

The opinion of the Head of Internal Audit on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control for 2017-18 is rated at 'Moderate'. This means that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control."

Accounting Officer's conclusion

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I am supported by the Group Internal Audit function, the management assurance reporting process and by comments made by the NAO and other external auditors in their management letter and other reports.

I am in agreement with the assessments of the Internal Auditors, the Audit & Risk Committee and Executive Directors' management assurance returns as outlined in this Governance Statement: namely that DVSA operates within a moderately effective control environment albeit with some areas requiring attention and improvement, such as improving testing performance and quality.

Remuneration and Staff Report

Remuneration Report

The remuneration report is presented in accordance with Civil Service Employer Pension Notice guidance.

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 that 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 its own staff below Senior Civil Service 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 as agreed between the Trade Unions, DfT and HM Treasury.

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on senior salaries.

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the directors of the agency.

Remuneration (salary, benefits in kind and pensions) (audited)

Current Board members

Directors	Salary £000		Bonus £000		Pension benefits £000		Total £000	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Chief Executive								
Gareth Llewellyn	130-135	130-135	15-20	-	51	51	195-200	180-185
Director								
Peter Hearn (from 11/07/16)	85-90	50-55 (70-75)	-	-	165	54 (75)	250-255	105-110 (145-150)
Richard Hennessy (from 03/04/2017)	85-90 (90-95)	-	-	-	35 (35)	-	120-125 (125-130)	-
Adrian Long	100-105	105-110	10-15	-	40	39	150-155	145-150 (135-140)
Helen Milne (from 10/10/16)	95-100	45-50 (95-100)	-	-	37	18 (37)	130-135	60-65 (130-135)
James Munson	120-125	120-125	10-15	-	47	47	180-185	165-170
Non-Executive Chair								
Bridget Rosewell (from 01/03/17)	25-30	0-5 (25-30)	-	-	-	-	25-30	0-5 (25-30)
Non-Executive Directors								
Ian Baulch-Jones (from 28/11/2017)	5-10 (10-15)	-	-	-	-	-	5-10 (10-15)	-
Shrinivas Honap	15-20	25-30	-	-	-	-	15-20	25-30
Fiona Ross	10-15	15-20	-	-	-	-	10-15	15-20

Adrian Long's salary for 2016-17 includes a one off payment in lieu of annual leave. Without this his salary would be between £100,000 and £105,000.

Previous Board members

Directors	Salary £000		Bonus £000		Pension benefits £000		Total £000	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Director								
Nicholas Graham (to 31/08/16)	-	65-70 (140-145)	-	-	-	-	-	65-70 (140-145)
Kevin Kidman (to 05/08/16)	-	60-65 (150-155)	-	-	-	-	-	60-65 (150-155)
Nick Longhurst (from 01/09/16 to 31/10/16)	-	10-15 (75-80)	-	-	-	10 (59)	-	20-25 (135-140)
Paul Satoor (to 31/01/17)	-	100-105 (120-125)	-	10-15	-	28 (34)	-	140-145 (165-170)
Non-Executive Director Geraldine Terry (to 11/06/17)	5-10 (25-30)	20-25	-	-	-	-	5-10 (25-30)	20-25

Paul Satoor's salary for 2016-17 includes second workplace reimbursement of £28,590. Salary excluding the reimbursement would be between £70,000 and £75,000 (FYE £85,000 to £90,000). "Second workplace" is a concept introduced by HMRC and causes some necessary work-related travel costs to fall in the scope of income tax. It is the agency's policy to reimburse through payroll employees for any incremental tax burden that results from this.

Nicholas Graham and Kevin Kidman were engaged on a contract basis and were not directly employed by the agency and therefore receive no pension benefits.

Notes to the remuneration tables (Current and Previous Board members)

Where a member of the Board served for only a part of a year, the full year equivalent (FYE) figure is also shown in brackets.

Pension benefits included in the table above represent the actuarially assessed increase in pension benefits at retirement age arising due to in-year service, calculated as per Finance Act 2013 rules.

No current or previous Board members received any other non-pension benefits or benefits in kind in 2017-18 (2016-17: nil).

Salary

Salary includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is consistent with the recording of expenditure in the Accounts and is therefore based on accrued payments to the Directors.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process.

The bonuses reported in 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2016-17 relate to the performance in 2015-16 as the decision to pay is not made until after the year end.

Fair Pay Disclosure (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. 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 banded remuneration of the highest paid director in DVSA in the financial year 2017-18 was £145,000 - £150,000 (2016-17: £150,000 - £155,000). This was 5.5 times (2016-17: 5.7 times) the median remuneration of the workforce, which was £27,042 (2016-17: £26,945).

In 2017-18, 2 (2016-17: 4) staff received remuneration in excess of the highest-paid director, both of whom were contractors. The remuneration banding for the highest paid employee was £160,000 - £165,000 (2016-17: £185,000 - £190,000).

The median remuneration for 2017-18 is derived from the annualised remuneration of all staff as at 31 March 2018. Part time employees' payments are adjusted to a full time basis.

The ratio has fallen primarily because of a reduction in the remuneration received by the highest paid director. This was due to appointing permanent staff into Board positions that were previously temporarily covered by contractors.

Pension benefits (audited)

Directors	Accrued pension at age 65 as at 31/3/18 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31/3/18 or date of departure £000	CETV at 31/3/17 or date of departure £000	Real increase in CETV £000
Chief Executive					
Gareth Llewellyn	5-10	2.5-5	74	37	27
Director					
Peter Hearn (from 11/07/16)	35-40 plus 115-120 lump sum	7.5-10 plus 22.5-25 lump sum	805	617	145
Richard Hennessy (from 03/04/2017)	0-5	0-2.5	15	-	9
Adrian Long	10-15	0-2.5	189	152	24
Helen Milne (from 10/10/16)	0-5	0-2.5	37	11	18
James Munson	5-10	2.5-5	86	56	19

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS).

The PCSPS has four sections:

- 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60
- 1 providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65

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**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation.

Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022.

All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha.** (The pension benefits shown in the table are for pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.)

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 4.60% and 8.05% for members of **classic, premium**, **classic plus**, **nuvos** and **alpha**.

Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement.

For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum.

classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**.

In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of 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.

Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. 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 8% and 14.75% (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 0.5% 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**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The 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 calculated 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.

The real increase in the value of the 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 or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office

No Directors left under Voluntary Exit or Voluntary Redundancy terms during 2017-18 (2016-17: Nil). No compensation payments were paid (2016-17: £Nil).

Staff Report

Staff costs (audited)

An analysis of the agency's staff costs and expenditure on consultancy is provided in Note 3 to the Accounts.

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme– known as "alpha"– are unfunded multi-employer defined benefit schemes in which DVSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk/about-us/resource-accounts/).

For 2017-18, employers' contributions of £24,470,000 were payable to the PCSPS (2016-17: £25,582,000) at one of four rates in the range 20.0% to 24.5% (2016-17: 20.0% to 24.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 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 which is a stakeholder pension with an employer contribution. Employers' contributions of £335,000 (2016-17: £236,000) were payable to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 8.0% to 14.75% of pensionable earnings. Employers also match employee contributions up to 3.0% of pensionable earnings.

In addition, employer contributions of £8,000, 0.5% of pensionable pay (2016-17: £8,000, 0.5% of pensionable earnings), 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 (included above) due to the partnership pension providers at the reporting period date were £22,000 (2016-17: £20,000).

5 persons (2016-17: 12 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2016-17: £nil).

DVSA 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. DVSA bears the cost of these benefits until the normal retirement 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.

DVSA recognises the cost of providing employee benefits, such as holiday pay, in the period in which the employee earns the benefit.

Staff costs include the Apprenticeship levy introduced by the Government from April 2017.

Employee numbers (audited)

Average numbers of persons employed	2017-18			2016-17
	Permanently employed staff No.	Others No.	Total No.	Total No.
Directly employed				
Senior Civil Service	6	-	6	5
Grade 6	21	0	21	22
Grade 7	70	4	74	75
Senior Executive Officer	197	22	219	212
Higher Executive Officer	558	19	577	526
Executive Officer	2,531	13	2,544	2,485
Administration Officer	1,023	40	1,063	1,051
Administration Assistant	40	3	43	74
Total	**4,446**	**101**	**4,547**	**4,450**

The number of persons employed are shown as the number of full-time equivalent staff employed during the year. The category “Others” includes contractors and agency staff.

Civil service and other compensation schemes (audited)

Exit Package Cost Band	Total by Cost Band 2017-18 No.	2016-17 No.
<£10,000	24	6
£10,000 - £25,000	25	86
£25,000 - £50,000	14	37
£50,000 - £100,000	2	16
£100,000 - £150,000	1	-
Total Packages	**66**	**145**
Total Cost (£000)	**1,248**	**3,687**

There have been no compulsory redundancies in 2017-18 or 2016-17.

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. Exit costs are accounted for in full in the year of departure. Ill-health retirement costs are met by the pension scheme and are not included in the table.

During the financial year 2017-18 no payments were made which were not covered by the Civil Service Compensation Scheme (2016-17: £nil).

Review of tax arrangements of public sector appointees

Off- payroll engagements for more than £245 per day and more than six months as at	**31 March 2018 No.**
Number of existing engagements	40
Of which:	
Number that have existed for less than one year	29
Number that have existed for between one and two years	9
Number that have existed for between two and three years	1
Number that have existed for three and four years	1
Number that have existed for four or more years	-

DfT confirms that all existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

New off- payroll engagements, or those that reached six months duration during the financial year and are for more than £245 per day	**2017-18 No.**
Number of new engagements, or those that reached six months duration	48
Of which:	
Number assessed as caught by IR35	44
Number assessed as not caught by IR35	4
Number engaged directly (via PSC - public service comparator, contracted to department) and are on the departmental payroll	-
Number of engagements reassessed for consistency/assurance purposes during the year	10
Number of engagements that saw a change to IR35 status following the consistency review.	4

Board members, and/or senior officials with significant financial responsibility during the financial year	**2017-18 No.**
Number of Board members and/or senior officials with significant financial responsibility. This figure includes both off-payroll and on-payroll engagements.	6
Number of off-payroll engagements	-

Gender equality

DVSA operates a number of staff network groups to help promote the diversity and inclusion agenda, and to act as a sounding board on these issues. As at 31 March 2018:

- three of the ten members of the DVSA Board were female
- 34 of 96 senior managers were female
- of the remaining workforce 35% were female

The agency's gender pay gap information is published as part of the DfT Gender Pay Gap Report (https://www.gov.uk/government/publications/dft-gender-pay-gap-report-and-data-2017).

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 Analysis.

Discrimination, bullying and harassment

The annual civil service staff engagement survey identified that 19% of respondents had experienced discrimination and 21% had experienced bullying or harassment in the last 12 months. During the year we have continued to implement a wide ranging Positive Behaviours campaign, comprising:

- a multi stakeholder Bullying, Harassment & Discrimination working group chaired by the Chief Executive
- a mandatory ‘respect in the workplace’ training course for all staff, including follow on sessions for teams once they have completed the mandatory training
- a new mediation service to assist in the early resolution of workplace issues, and training a cadre of investigation officers to ensure the more complex cases are investigated thoroughly
- a communications campaign to promote a zero tolerance approach

Policy on employment of disabled persons

DVSA, as part of the civil service, is an equal opportunity employer. This means, amongst other things:

- giving full and fair consideration to applications for employment by the agency made by disabled persons, having regard to their particular aptitudes and abilities
- 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
- providing for the training, career development and promotion of disabled persons employed by the agency

Employee involvement

The annual civil service staff engagement survey scored the agency at 49%, an increase of 6 percentage points on the previous year.

The industrial dispute regarding the terms of employment continued during the year with the Public and Commercial Services (PCS) union calling a 2-day strike in December. This received some support from staff with mitigation actions limiting the impact on front line services to customers. Since then, Prospect Union has accepted an offer to resolve its dispute and PCS has re-joined the normal consultation process, having previously withdrawn.

Trade union facility time

Organisations are required to publish trade union facility time data. Trade union facility time is a legal entitlement and is allocated by The Department. Total time spent on union activities should equate to no more than 0.1% of the total pay bill and no-one should spend more than 50% of their time on such activities.

The total number of employees who were trade union representatives during the year was 64. The time spent on trade union facility activity is analysed in the table below.

Percentage of time	Number of employees
0%	25
1-50%	38
51%-99%	1
100%	0

Exceptional circumstances led to one person spending over the 50% threshold of their time on trade union facility activity which will not be repeated.

The cost to the agency of trade union facility time represents 0.1% of the pay bill of £170,484,000. None of the facility time was spent on paid trade union activities.

Parliamentary Accountability and Audit Report

Parliamentary Accountability Disclosures (audited)

This section on Parliamentary Accountability Disclosures 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 2017-18.

Regularity of expenditure

DVSA has complied with the regularity of expenditure requirements as set out in HM Treasury guidance.

Fees and Charges

DVSA has complied with the cost allocation and charging requirements set out in HM Treasury guidance.

DVSA is required to set fees and charges to cover the full cost of the services provided, in accordance with Managing Public Money.

During the year, DVSA recorded a gross income of £387,585,000 (2016-17: £393,484,000) and a net surplus of £13,820,000 (2016-17: £30,664,000). Of the income, £361,936,000 (2016-17: £368,096,000) was generated through fees and charges.

DVSA has approximately 1,400 fee combinations therefore individual unit costs have not been reported. Note 2 to the Accounts groups the fees and charges by activity and shows the surplus or deficit for each group. Individual fees charged by DVSA can be found at www.gov.uk.

During the year the agency began a process of reviewing its fees to ensure that it remains compliant over the medium term with the necessary legislation and guidelines, in particular Managing Public Money and the Government Trading Funds Act 1973.

Losses and special payments

Losses and special payments totalled £769,000 during the year (2016-17: £756,000).

This includes ex-gratia payments of £327,400 (2016-17: £613,000) in respect of 4,161 cases (2016-17: 7,395). These payments arise mainly from compensation paid to driving test candidates to cover out of pocket expenses when tests are cancelled by the agency at short notice. It also includes payments made to ATF vehicle test stations where the agency did not fulfil a booking to provide a tester in line with a contractual requirement.

There are no individual cases of losses or special payments over £300,000 (2016-17: No cases) which need separate disclosure as required by Managing Public Money.

Constructive losses

There have been no constructive losses in the year ending 31 March 2018.

Remote Contingent Liabilities

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50 of the Treaty on European Union. This triggered the start of negotiations between the UK and the EU.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations.

The UK Government has provided a guarantee of funding for EU projects and the obligation for this funding lies with central departments. As a result, no remote contingent liability is disclosed.

Chief Executive and Accounting Officer
26 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the Driver and Vehicle Standards Agency for the year ended 31 March 2018 under the Government Trading Funds Act 1973. The financial statements comprise: the 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Driver and Vehicle Standards Agency's affairs as at 31 March 2018 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 regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Driver and Vehicle Standards Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Driver and Vehicle Standards Agency's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Driver and Vehicle Standards Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973;
- in the light of the knowledge and understanding of the Driver and Vehicle Standards Agency and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability 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 parts of the Accountability 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
Comptroller and Auditor General

9 July 2018

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

The Accounts

Statement of Comprehensive Net Income
For the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Income from operations			
Income from statutory activities		368,490	378,138
Income from other operating activities		19,095	15,346
Total income from operations	2	**387,585**	**393,484**
Expenditure from operations			
Staff costs	3	(176,864)	(177,515)
Other operating charges	4	(162,235)	(147,679)
Depreciation, amortisation, impairment and profit/loss on asset disposal	6/7	(20,099)	(24,054)
Total expenditure from operations		**(359,198)**	**(349,248)**
Net operating surplus		**28,387**	**44,236**
Finance income		331	346
Finance costs	5	(7,358)	(7,620)
Net finance costs		**(7,027)**	**(7,274)**
Surplus for the year		**21,360**	**36,962**
Dividend payable	5	(7,540)	(6,298)
Retained surplus for the year		**13,820**	**30,664**
Other comprehensive net income			
Income and expenditure that will not be recycled through the Statement of Comprehensive Net Income:			
Net gain on the revaluation of property, plant & equipment	6/7	5,161	4,959
Total other comprehensive net income		**5,161**	**4,959**
Total comprehensive net income for the year		**18,981**	**35,623**

Accounting policies and notes forming part of the Accounts are on pages 47 to 67.

Statement of Financial Position
As at 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Non-current assets			
Property, plant and equipment	6	164,163	162,762
Intangible assets	7	70,197	68,581
Total non-current assets		**234,360**	**231,343**
Current assets			
Trade and other receivables	9	14,031	18,203
Assets held for sale	8	2,989	2,256
Cash and cash equivalents	15	152,466	141,788
Total current assets		**169,486**	**162,247**
Total assets		**403,846**	**393,590**
Current liabilities			
Trade and other payables	10	(101,319)	(101,757)
Provisions	11	(2,616)	(5,116)
Total current liabilities		**(103,935)**	**(106,873)**
Total assets less current liabilities		**299,911**	**286,717**
Non-current liabilities			
Provisions	11	(4,530)	(7,817)
Other payables	10	(67,755)	(70,255)
Total non-current liabilities		**(72,285)**	**(78,072)**
Net assets		**227,626**	**208,645**
Taxpayers' equity			
Public dividend capital	SoCTE	32,458	32,458
General fund	SoCTE	130,983	115,525
Revaluation reserve	SoCTE	64,185	60,662
Total taxpayers' equity		**227,626**	**208,645**

Accounting policies and notes forming part of the Accounts are on pages 47 to 67.

Chief Executive and Accounting Officer
26 June 2018

Statement of Cash Flows
For the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Cash flows from operating activities			
Net operating surplus	SoCNI	28,387	44,236
Adjustments for non-cash transactions	15	9,091	22,105
(Increase) / Decrease in trade and other receivables	9	4,172	(2,740)
Increase / (Decrease) in trade and other payables	10	(2,001)	(9,595)
(Use) of provisions and unwinding of discount	11	(2,238)	(1,678)
Net cash inflow from operating activities		**37,411**	**52,328**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(6,005)	(6,815)
Purchase of intangible assets	7	(13,100)	(25,876)
Proceeds of disposal of property, plant and equipment		1,955	7,151
Net cash (outflow) from investing activities		**(17,150)**	**(25,540)**
Cash flows from financing activities			
Interest received on cash balances	SoCNI	331	346
Interest payments made under finance leases	5	(6,018)	(5,847)
Repayment of loans from the Secretary of State	12	(3,628)	(9,159)
Interest payable on loan financing	5	(268)	(751)
Net financing		**(9,583)**	**(15,411)**
Net increase/ (decrease) in cash and cash equivalents	15	**10,678**	**11,377**
Cash and cash equivalents at the beginning of the year		**141,788**	**130,411**
Cash and cash equivalents at the end of the year		**152,466**	**141,788**

Accounting policies and notes forming part of the Accounts are on pages 47 to 67.

Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2018

	Note	General Fund	Revaluation Reserve	Public Dividend Capital	Total Taxpayers' Equity
		£000	£000	£000	£000
Balance as at 1 April 2016		**78,890**	**61,674**	**32,458**	**173,022**
Changes in 2016-17					
Retained surplus for the year	SoCNI	30,664	-	-	30,664
Revaluation gains and losses	SoCNI	-	4,959	-	4,959
Transfers between reserves		5,971	(5,971)	-	-
Total		36,635	(1,012)	-	35,623
Balance as at 31 March 2017		**115,525**	**60,662**	**32,458**	**208,645**
Changes in 2017-18					
Retained surplus for the year	SoCNI	13,820	-	-	13,820
Revaluation gains and losses	SoCNI	-	5,161	-	5,161
Transfers between reserves		1,638	(1,638)	-	-
Total		15,458	3,523	-	18,981
Balance as at 31 March 2018		**130,983**	**64,185**	**32,458**	**227,626**

Accounting policies and notes forming part of the Accounts are on pages 47 to 67.

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

Notes to the Accounts

Note 1 – Statement of accounting policies

These Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adapted and interpreted by the 2017-18 Government Financial Reporting Manual (FReM) issued by HM Treasury.

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 DVSA 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 Accounts.

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 March 2018, and have not been applied in these Accounts. The following new standards may affect the Accounts if they are adopted by the FReM:

- IFRS 9 addresses classification, measurement and impairment of financial assets. This standard has been adapted and interpreted by HM Treasury for implementation in the 2018 -19 FReM. The impact on DVSA is not significant due to the nature of our receivables and it is expected that IFRS 9 will result in terminology changes only.

- IFRS 15 covers the recognition of revenues from contracts with customers. This standard has been adapted and interpreted by HM Treasury for implementation in the 2018-19 FReM. DVSA has reviewed income recognition for each of its services in accordance with IFRS 15. The impact on DVSA is not substantial, with income recognition unaffected and changes in terminology and disclosure only.

- IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. It is to be implemented from April 2019. The likely impact on DVSA is that leases currently categorised as operating leases will require the value of the asset and liability to be included in the Statement of Financial Position. The value of the associated lease liability is currently disclosed in Note 13.

a) Basis of preparation

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

b) Income recognition

DVSA levies fees and charges for the majority of its activities including:

- theory and practical driving tests
- administering the MOT service
- first and annual testing of heavy vehicles
- application for operator licences and the granting of licences
- registration of bus routes
- managing statutory and other registers
- approval of training bodies and courses
- a range of commercial activities

The majority of income is received in advance of the delivery of services.

Income for applications for operator licences, the granting of licences and the registration of bus routes is recognised at the time of application and grant.

For all testing activities, income is recognised at the time of a test.

For all licence fees, licence continuation fees and inclusion on registers, income is released over the period of the licence based on a management assessment of usage.

Fees and charges received in advance for tests which have yet to be performed, licences with remaining terms left on the licence and other payments received in advance, at the statement of financial position date are shown as deferred income within 'Trade and other payables'.

Income for the capability to test vehicles on the MOT computerised system is recognised when testing "slots" are sold.

c) Central departmental funding

Departmental funding for projects is recognised as income to match the expenditure in accordance with IAS 20, in order to show a 'true and fair view'. Grant amounts received relating to projects carried out for the Department which are not yet complete are deferred and included under other payables (note 10).

Central funding in the form of loans from the Secretary of State has also been provided to DVSA to support the historic investment in major estate, equipment and IT developments which could not at the time be funded from DVSA's own resources. In accordance with IFRS, the 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 non-current liabilities.

Interest charged on loans is expensed in line with IAS 23.

d) Value Added Tax

DVSA is not separately registered for Value Added Tax (VAT). VAT is accounted for through the Department for Transport (DfT) group registration. DVSA recovers input VAT on certain contracted out services in relation to statutory activities and under normal business rules for non-statutory ("business") activities.

Income and expenditure are shown net of VAT and VAT is charged to the relevant expenditure category where it is irrecoverable or if appropriate, capitalised within additions to non-current assets.

DVSA charges output VAT on non-statutory services.

e) Segmental Reporting

It is not necessary for DVSA to provide segmental reporting under IFRS 8 because it operates as a single agency within a single market (United Kingdom) but we provide an analysis of income and expenditure in note 2 for key activities to comply with Managing Public Money.

f) Property, plant and equipment

Valuation

Land and buildings are revalued over a five year period with approximately one fifth of the estate being valued each year by P M Scammell, District Valuer Services, in accordance with the RICS Appraisal and Valuation Manual and the FReM.

Multi-purpose test centres and enforcement sites located near to major trunk roads in the UK are classified as specialist assets. Specialist assets are valued on a Depreciated Replacement Cost basis.

All other properties held for their service potential are deemed non-specialist and valued on an Existing Use valuation basis.

Surplus properties planned for disposal are held at market value as this represents the net realisable value of the asset. They continue to be depreciated until they meet the criteria to transfer to "held for sale". See critical accounting judgements and estimates – Note 1p.

All other tangible assets (plant and equipment, vehicles and IT hardware) are revalued annually using indices published by the Office for National Statistics. Indexation is first applied in the year following acquisition.

Intangible assets are held at amortised cost.

Title to Properties

Legal title to freehold land and buildings is held in the name of the Secretary of State for Transport. The control and management is vested in DVSA as if legal transfer has been effected.

Capitalisation

The minimum level for capitalisation as a non-current asset is £5,000 for individual assets. Items of a lower value may be capitalised where these form part of a larger group of assets or a specific project.

g) Assets under construction

DVSA capitalises the value of assets under construction at cost plus costs directly attributable to bringing the asset into its current condition. 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.

h) Intangible assets

Intangible assets consist of some software licences and IT system developments.

Expenditure on IT systems development is capitalised if it is probable that it will generate future economic benefits. Expenditure capitalised includes project management, bought in services and the payroll costs of permanent staff working directly on the developments. General overhead is not included. Systems under development are shown as Assets Under Construction until they become operational and are subject to an annual impairment review.

i) Depreciation and amortisation

Depreciation is charged on a straight line basis from the month that the asset is brought in to use. Assets under construction are not depreciated. The asset categories and estimated useful lives are as follows:

Land and buildings:	
Freehold buildings	10 - 60 years
Freehold land	not depreciated

Leasehold property and leasehold improvements are fully written down over the term of the lease with the exception of the Chadderton enforcement site where the lease is 999 years and the leasehold property is written down over 60 years.

Other assets:	
Plant and machinery	5 - 10 years
Transport equipment	2 - 10 years
IT equipment	3 - 10 years
IT system developments and software	2 - 10 years

j) Assets held for sale

Assets held for sale comprise properties, plant and equipment that are no longer in operational use and 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 fair value. Assets held for sale are not depreciated.

k) Leasing

A lease is an agreement whereby the lessor conveys the right to use an asset for an agreed period in return for payments. At their inception, leases are classified as operating or finance leases. If a lease conveys substantially all the risks and rewards of ownership to the lessee (such as transfer of title, the lease term covering the major part of the asset's life, or the lease payments are substantially all of the fair value of the leased asset), it is classified as a finance lease. Otherwise, it is classified as an operating lease. Where a lease covers the right to use both land and buildings, the risks and rewards of the land and buildings are considered separately. Land is assumed to be held under an operating lease unless the title transfers to DVSA at the end of the lease.

The interest and service charge element of the rental obligations is charged to the Statement of Comprehensive Net Income over the period of the lease.

Arrangements whose fulfilment is dependent on the use of a specific asset or which convey a right to use an asset, are assessed at their inception to determine if they contain a lease. If an arrangement is found to contain a lease, that lease is then classified as an operating or finance lease.

Assets held under finance leases are capitalised at the present value of the minimum lease payments at the start of the lease, with an equivalent liability categorised as appropriate under liabilities due within and after more than one year.
Operating lease incentives are recognised in the Statement of Comprehensive Net Income on a straight line basis over the term of the lease.

l) Cash and cash equivalents

Cash is held within a current account with the Government Banking Service. Cash not required for short-term operational needs is deposited with National Loans Fund. The agency does not have any bank overdrafts.

m) 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 (IAS 32 and IAS 39) and has disclosed at note 16 the information it is required to report.

The carrying values of the agency's financial assets and liabilities at 31 March 2018 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.

n) Provisions

Provisions have been established under the criteria of IAS 37. Discount rates set by HM Treasury are applied to take account of the time value of money where significant cash flows are expected to arise beyond the next financial period.

o) Contingent liabilities

Contingent liabilities have been assessed under the IAS 37 criteria as the possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly in control of the agency; or a present obligation that arises from past events but is not recognised because either:

- it is not probable that an outflow of resource embodying economic benefits will be required to settle the obligation or
- the amount of the obligation cannot be measured with sufficient reliability

p) Critical accounting judgements and estimates

The preparation of these Accounts 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 DVSA believes require the most critical accounting judgments and estimates are:

- Provision for liabilities and charges
- Impairment
- Asset valuations, asset lives and surplus properties (including assets held for sale)
- Apportionment of costs to statutory activities

Provision for liabilities and charges

Provisions 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, lease obligations, contractual obligations, personal injury, discrimination and unfair dismissal.

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 intangible assets under construction is undertaken annually to determine if an asset meets the impairment criteria when the asset value is restated to the underlying recoverable amount.

This is done by scrutinising capital expenditure for costs that are judged to not contribute sufficiently to the final asset (specific impairment), and by a general review of the estimated forecast costs versus estimated benefits of the asset (known as a general impairment).

Other assets are considered for impairment if and when there is an indication that such a review is required.

Valuations

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 DVSA's financial position and performance.

Management uses the advice of independent professional advisers to value the property estate in line with the policy stated at 1f) above. Other tangible assets are revalued 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 the depreciated replacement cost method.

The agency's intangible assets do not have an active market and are valued at historic cost net of any impairments as a proxy for depreciated replacement cost.

Asset lives

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

Surplus properties

These are valued in accordance with IFRS13. In particular, properties that are judged to be surplus are held at market value.

Assets held for sale

Assets held for sale are recorded at market value based on the information from the Valuation Office Agency or more recent market information.

Apportionment of costs to statutory activities

Note 2 to the Accounts shows the income and expenditure relating to statutory activities. Management reviews its activities to ensure that the agency achieves a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities.

A number of assumptions are used in applying costs to income generating 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 DVSA include throughput of tests, examiner utilisation and length of tests.

q) Graduated fixed penalties deposit collection

DVSA collects fixed penalties and bus fines on behalf of HM Treasury for vehicle related offences and bus services operator offences. Amounts collected are paid to HM Treasury. The transactions related to this activity do not form part of DVSA's Accounts. A memorandum of activity can be found in note 21 and is prepared in accordance with the accounting policies used by DVSA.

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

As the agency operates as a single entity in a single geographical market a disclosure under IFRS 8 – Operating segments is not required. Financial performance analysed by activity is provided in the table below.

		2017-18			2016-17	
Activity	**Income**	**Expenditure**	**Surplus/ (deficit)**	**Income**	**Expenditure**	**Surplus/ (deficit)**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Driver services	206,585	211,357	**(4,772)**	207,408	195,870	**11,538**
Vehicle services	100,355	98,454	**1,901**	107,234	109,843	**(2,609)**
MOT service	62,061	35,832	**26,229**	61,292	33,499	**27,793**
Licensing services	13,147	20,952	**(7,805)**	13,278	19,876	**(6,598)**
Other services	5,437	7,170	**(1,733)**	4,272	3,732	**540**
Total	**387,585**	**373,765**	**13,820**	**393,484**	**362,820**	**30,664**

Driver services includes practical tests, theory tests and related standards, accreditation and compliance activities. During the year, the agency has continued to build its capacity to deliver practical tests. Income has remained at a similar level to the previous year and waiting times have continued to reduce. Expenditure has increased in line with the recruitment of driving examiners and associated estate costs to provide the additional capacity. Spend has also increased to improve existing driver and rider testing facilities and enhance the information and communication technology supporting this service.

Vehicle services includes heavy vehicle testing and compliance activities. Income has decreased mainly due to reduced grant from the Department covering enforcement activity and one-off projects in the previous year. Underlying testing income has reduced slightly due to lower volumes of statutory testing and the ending of the "Reduced Pollution Certificate" test. Expenditure has reduced due to reduction in staff costs and lower estate costs as the service vacates the heavy vehicle testing estate with most tests now carried out at customer premises.

Underlying performance of the MOT service has remained stable. Expenditure has increased following the MOT consultation in 2017 and subsequent agreement to fund light goods vehicles enforcement work from the related MOT fees. The surplus offsets unplanned deficits in other areas at agency level, and will be reinvested in enhancements to this service.

Licensing services' income is similar to last year. The expenditure has increased due to the running costs of the new and improved digital operator licensing system which was introduced in the previous year.

Other services comprise publications and training activities, together with projects that are fully funded by DfT. Expenditure has increased due to additional one-off transition costs and ongoing running costs of shared services and a deficit has arisen as the costs exceeded the income which was funded by a grant.

Note 3 – Staff costs

	2017-18			2016-17
	Permanently employed staff	**Others**	**Total**	**Total**
	£000	**£000**	**£000**	**£000**
Wages and salaries	132,306	7,221	139,527	135,846
Social security costs	13,365	-	13,365	12,352
Pension costs	24,813	-	24,813	25,826
Staff costs incurred under restructuring	-	-	-	5,443
Total costs	**170,484**	**7,221**	**177,705**	**179,467**
Less recoveries in respect of outward secondments	(62)	-	(62)	(91)
Less capitalised costs	(599)	(180)	(779)	(1,861)
Total net staff costs	**169,823**	**7,041**	**176,864**	**177,515**

Other staff costs consist of contractors and temporary staff. In addition, £65,000 (2016-17: £140,000) was spent on consultancy.

Note 4 – Other operating charges

	2017-18 £000	2016-17 £000
Information Technology – running costs	38,390	39,621
Outsourced theory test costs	31,210	32,771
Accommodation costs	26,875	24,904
Information Technology – support to development programmes	13,621	1,944
Rentals under operating leases	11,949	10,516
Travel and subsistence	10,772	9,905
Contracted services	7,190	7,232
Auditors’ remuneration and expenses	116	109
Other	22,112	20,677
Total other operating charges	**162,235**	**147,679**

Expenditure on Information technology – support to development programmes has been separately disclosed in 2017-18 due to materiality. It covers expenditure in support of development programmes that does not meet the criteria to be capitalised.

Previously, as the MOT information technology system was outsourced, the costs were separately identified. Since implementation of the new MOT system the running costs form a part of the general Information Technology – running costs and are no longer recorded separately.

Note 5 – Finance costs

	2017-18 £000	2016-17 £000
Interest charges on loans from the Secretary of State	268	751
Interest charges on finance leases	7,171	6,714
Unwinding discount on provisions	(81)	155
Total finance costs	**7,358**	**7,620**

Dividend payable	2017-18 £000	2016-17 £000
Capital employed at the start of the period	215,213	187,602
Capital employed at the end of the period	230,961	215,213
Average capital employed	223,087	201,407
Target return on capital employed of 3.5%	7,808	7,049
Less interest payable on loans from DfT	(268)	(751)
Total dividend payable to DfT	**7,540**	**6,298**

The Secretary of State for Transport has determined financial objectives for DVSA. These were confirmed by Treasury Minute dated 31 March 2016 the text of which is reproduced at Annex A.

The actual ROCE for the year ended 31 March 2018 was 10%, achieving the target of at least 3.5% for the period.

The target return on capital of 3.5% is paid through a combination of interest and dividend. Total interest is below the return needed to meet the target and as a result DVSA will pay a dividend of £7.5m to DfT (2016-17: £6.3m).

Return on capital employed (ROCE)	Notes	2017-18	2016-17
		£000	£000
Surplus for the year	SoCNI	21,360	36,962
Adjustment for interest charges on loans from the Secretary of State	5	268	751
Adjustment for asset impairment and write-off	6	1,077	7,460
Adjustment for (profit)/ loss on asset disposal	6	(487)	(1,080)
Surplus on ordinary activities		22,218	44,093
Average capital employed		223,087	201,407
Return on capital employed		**10.0%**	**21.9%**

For the purpose of calculating dividend and ROCE, capital employed is calculated in accordance with the definition provided in the Treasury Minute (see Annex A).

Note 6 – Property, plant and equipment

2017-2018	Land	Buildings	IT Equipment	Plant and Machinery	Transport Equipment	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2017	36,849	139,063	12,570	8,916	7,239	3,133	207,770
Additions	-	2,294	686	339	306	3,589	7,214
Disposals	(75)	(1,606)	(984)	(2,581)	(952)	-	(6,198)
Impairments	-	(833)	-	-	-	-	(833)
Reclassifications	(814)	123	(723)	1,167	100	(1,884)	(2,031)
Revaluations	548	4,755	229	33	248	-	5,813
At 31 March 2018	**36,508**	**143,796**	**11,778**	**7,874**	**6,941**	**4,838**	**211,735**
Depreciation							
At 1 April 2017	-	20,393	9,597	8,599	6,419	-	45,008
Charge for the year	-	6,238	1,542	107	285	-	8,172
Disposals	-	(1,500)	(951)	(2,576)	(946)	-	(5,973)
Impairments	-	-	-	-	-	-	-
Reclassifications	-	(55)	(1,033)	1,033	-	-	(55)
Revaluations	-	-	169	30	221	-	420
At 31 March 2018	**-**	**25,076**	**9,324**	**7,193**	**5,979**	**-**	**47,572**
Carrying value							
At 1 April 2017	36,849	118,670	2,973	317	820	3,133	162,762
At 31 March 2018	**36,508**	**118,720**	**2,454**	**681**	**962**	**4,838**	**164,163**
Asset financing							
Owned assets	36,508	50,352	2,454	681	962	4,838	95,795
Enhancements to lease property	-	25,955	-	-	-	-	25,955
Finance leased assets	-	42,413	-	-	-	-	42,413
At 31 March 2018	**36,508**	**118,720**	**2,454**	**681**	**962**	**4,838**	**164,163**

Properties are valued in accordance with the policy outlined in Note 1(f). Of the total value of land and buildings, 57% relates to specialist assets which are held at depreciated replacement cost, 30% relates to non-specialist assets which are held at existing use value, and 13% relates to surplus assets, which are held at market value.

Finance leased assets above comprise multi-purpose test centres procured under finance leases and capitalised expenditure for works on properties held under operating leases.

As a result of revaluations and impairments, assets (including assets held for sale) were revalued upwards by £4,560,000 (net of impairments) (2016-17: £1,826,000 downwards)). Of this £601,000 (2016-17: £6,785,000) was charged to the Statement of Comprehensive Net Income operating costs and £5,161,000 (2016-17: £4,959,000) was taken to other comprehensive net income.

The revaluation reserve shown within the Statement of Changes in Taxpayers' Equity has a closing balance of £64,185,000 (2016-17: £60,662,000) of which £64,179,000 (2016-17: £60,656,000) is property, plant and equipment (including property, plant and equipment held for sale) with the remainder being intangible assets. This represents the net book value of assets revalued above their historic net book value.

The additions in 2017-18 includes £2,129,000 (2016-17: £920,000) in relation to capital accruals.

2016-2017	Land	Buildings	IT Equipment	Plant and Machinery	Transport Equipment	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2016	34,760	139,425	11,054	9,232	9,793	4,934	209,198
Additions	-	189	58	5	246	5,566	6,064
Disposals	(18)	(767)	(2,084)	(641)	(3,322)	-	(6,832)
Impairments	-	(159)	-	-	-	(63)	(222)
Reclassifications	421	2,858	3,069	96	343	(7,304)	(517)
Revaluations	1,686	(2,483)	473	224	179	-	79
At 31 March 2017	**36,849**	**139,063**	**12,570**	**8,916**	**7,239**	**3,133**	**207,770**
Depreciation							
At 1 April 2016	-	20,384	10,203	8,905	8,615	-	48,107
Charge for the year	-	6,096	1,053	98	863	-	8,110
Disposals	-	(289)	(2,083)	(620)	(3,209)	-	(6,201)
Impairments	-	(23)	-	-	-	-	(23)
Reclassifications	-	59	-	-	-	-	59
Revaluations	-	(5,834)	424	216	150	-	(5,044)
At 31 March 2017	**-**	**20,393**	**9,597**	**8,599**	**6,419**	**-**	**45,008**
Carrying value							
At 1 April 2016	34,760	119,041	851	327	1,178	4,934	161,091
At 31 March 2017	**36,849**	**118,670**	**2,973**	**317**	**820**	**3,133**	**162,762**
Asset financing							
Owned assets	36,849	50,096	2,973	317	820	3,133	94,188
Enhancements to lease property	-	25,373	-	-	-	-	25,373
Finance leased assets	-	43,201	-	-	-	-	43,201
At 31 March 2017	**36,849**	**118,670**	**2,973**	**317**	**820**	**3,133**	**162,762**

Analysis of depreciation, amortisation and impairment line in Statement of Comprehensive Net Income	**Notes**	**2017-18 £000**	**2016-17 £000**
Depreciation of property, plant and equipment	6	8,172	8,110
Amortisation of intangible assets	7	11,569	10,129
(Profit) / Loss on disposal of assets		(487)	(970)
Net impairment of non-current assets	6 & 7	1,077	7,350
Revaluation of property, plant and equipment not taken to the revaluation reserve		(232)	(565)
		20,099	**24,054**

Note 7 – Intangible assets

2017-18	IT Software	Assets Under Construction	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2017	120,818	3,247	124,065
Additions	5,604	7,825	13,429
Disposals	(111)	-	(111)
Impairments	-	(244)	(244)
Reclassifications	1,992	(1,992)	-
At 31 March 2018	**128,303**	**8,836**	**137,139**
Amortisation			
At 1 April 2017	55,484	-	55,484
Charge for the year	11,569	-	11,569
Disposals	(111)	-	(111)
Impairments	-	-	-
Reclassifications	-	-	-
At 31 March 2018	**66,942**	**-**	**66,942**
Carrying value			
At 1 April 2017	65,334	3,247	68,581
At 31 March 2018	**61,361**	**8,836**	**70,197**

All intangible assets are owned.

DVSA conducts an annual impairment review of intangible assets to ensure that their carrying value is no more than their recoverable amount.

The additions in 2017-18 includes £3,100,000 (2016-17: £2,771,000) in relation to capital accruals.

Analysis of IT Software:	Remaining Life At 31 March 2018 £000	Net Book Value At 31 March 2018 £000
MOT system	7 years	45,674
Vehicle Operator Licensing System	8 years	9,176
Other in use systems	Up to 8 years	6,511
Other – assets under construction	n/a	8,836
Total		**70,197**

2016-17	IT Software	Assets Under Construction	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2016	154,266	23,867	178,133
Additions	-	22,939	22,939
Disposals	(69,843)	(6)	(69,849)
Impairments	(5,300)	(1,858)	(7,158)
Reclassifications	41,695	(41,695)	-
At 31 March 2017	**120,818**	**3,247**	**124,065**
Amortisation			
At 1 April 2016	115,188	-	115,188
Charge for the year	10,129	-	10,129
Disposals	(69,826)	-	(69,826)
Impairments	(7)	-	(7)
Reclassifications	-	-	-
At 31 March 2017	**55,484**	**-**	**55,484**
Carrying value			
At 1 April 2016	39,078	23,867	62,945
At 31 March 2017	**65,334**	**3,247**	**68,581**

Analysis of IT Software:	Remaining Life At 31 March 2017 £000	Net Book Value At 31 March 2017 £000
MOT system	8 years	45,184
Vehicle Operator Licensing System	9 years	9,641
Other in use systems	Up to 9 years	10,509
Other – assets under construction	n/a	3,247
Total		**68,581**

Note 8 – Assets held for sale

	2017-18	2016-17
	£000	£000
At 1 April 2017	2,256	6,806
Disposals of assets	(1,243)	(5,527)
Transferred in year as assets held for resale	1,976	576
Revaluations	-	401
At 31 March 2018	**2,989**	**2,256**

Sale of assets resulted in cash receipts of £1,955,000 (2016-17: £7,151,000). These were used to fund early repayment of loans from Secretary of State.

Note 9 – Trade and other receivables

Amounts falling due within one year	31 March 2018 £000	31 March 2017 £000
Trade receivables	818	4,793
Interest receivable	12	8
Recoverable VAT	5,654	5,209
Prepayments and accrued income	5,893	6,338
Other receivables	1,654	1,855
Total	**14,031**	**18,203**

Other receivables includes £1,307,000 which is due after more than one year.

The decrease in trade and other receivables during the year is £4,172,000 (2016-17: £2,740,000 increase).

Note 10 – Trade and other payables

Amounts falling due within one year	31 March 2018 £000	31 March 2017 £000
Trade payables	641	1,587
Other payables	6,383	6,013
Fees in advance	10,008	9,900
Accruals and deferred income	73,503	69,345
Deferred income - grant funding from DfT	3,616	7,590
Current part of finance leases	6,259	6,018
Current instalment on Secretary of State loans (see note 12)	909	1,304
Total	**101,319**	**101,757**

Amounts falling due after more than one year	31 March 2018 £000	31 March 2017 £000
Other payables	253	277
Deferred income	13,894	14,049
Finance leases	50,273	49,361
Future instalments on Secretary of State loans (see note 12)	3,335	6,568
Total	**67,755**	**70,255**

The decrease in trade and other payables during the year is £2,001,000 (2016-17: £9,595,000 increase). This consists of a decrease in amounts falling due within one year (excluding current part of finance leases and current instalment on Secretary of State loans) of £284,000 and a decrease in deferred income and other payables greater than one year of £179,000 less the movement in capital accruals (property, plant and equipment and intangibles) of £1,538,000.

Note 11 – Provisions

2017-18	Early Departure £000	Lease Obligations £000	Dilapidations £000	Legal & other £000	Total £000
At 1 April 2017	3,390	7,193	1,703	647	12,933
Provided in the year	1	387	184	909	1,481
Provisions not required written back	(156)	(3,474)	(1,087)	(313)	(5,030)
Provision utilised in year	(1,721)	(355)	(44)	(37)	(2,157)
Borrowing costs (unwinding of discount)	4	(85)	-	-	(81)
At 31 March 2018	**1,518**	**3,666**	**756**	**1,206**	**7,146**
– Not later than one year	1,067	355	756	438	2,616
– Later than one year and not later than five years	451	1,478	-	283	2,212
– Later than five years	-	1,833	-	485	2,318
Total greater than one year	451	3,311	-	768	4,530
At 31 March 2018	**1,518**	**3,666**	**756**	**1,206**	**7,146**

2016-17	Restructuring £000	Early Departure £000	Lease Obligations £000	Dilapidations £000	Legal claims £000	Total £000
At 1 April 2016	-	1,429	6,070	2,089	519	10,107
Provided in the year	1,756	923	2,120	596	624	6,019
Provisions not required written back	-	(3)	(558)	(935)	(19)	(1,515)
Provision utilised in year	-	(729)	(596)	(31)	(477)	(1,833)
Borrowing costs (unwinding of discount)	-	14	157	(16)	-	155
At 31 March 2017	**1,756**	**1,634**	**7,193**	**1,703**	**647**	**12,933**
– Not later than one year	1,756	654	671	1,388	647	5,116
– Later than one year and not later than five years	-	980	2,830	315	-	4,125
– Later than five years	-	-	3,692	-	-	3,692
Total greater than one year	-	980	6,522	315	-	7,817
At 31 March 2017	**1,756**	**1,634**	**7,193**	**1,703**	**647**	**12,933**

The Restructuring provision in 2016-17 primarily covered the cost of a Voluntary Exit Scheme. In 2017-18, as the details of the restructuring became more certain, this has transferred in to the Early Departure provision.

Use of provision and unwinding of discount during the year is £2,238,000 (2016-17: £1,678,000).

Early Departure

This provision covers the cost of staff who have agreed to leave under voluntary early retirement and voluntary redundancy arrangements and is created when the arrangement is agreed. Costs for early retirement include lump sum pension payments and the total pension liability up to normal retirement age.

Lease Obligations

This provision covers the future expected costs for properties that are considered surplus and where there is no expectation to sub-let or revoke the lease. The provision also includes an estimate of increases to lease charges which may materialise following contractual negotiations and where that increase may be backdated to the start of the new lease period.

Dilapidations

This provision is to cover the likely costs of rectifying dilapidations under lease terms. In making these assessments, the agency has applied a risk based approach on a property by property basis looking forward three years.

Legal and other

This provision covers legal claims against the agency that are expect to materialise following due process, and ongoing injury benefit payments to individuals who have suffered a qualifying injury which has resulted in an impairment to their earning capacity in the course of their official duty or incidental to duty whilst employed by the agency.

Note 12 – Loans from the Secretary of State

DVSA 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 year end:

	31 March 2018 £000	31 March 2017 £000
Loan issued in 2007-08 15 year repayment at 4.54% interest	3,812	7,352
Loan issued in 2009-10 10 year repayment at 3.0% interest	432	520
Total Loans	**4,244**	**7,872**

	31 March 2018 £000	31 March 2017 £000
Amounts repayable:		
– Current loan instalment (see note 10)	909	1,304
– In one to two years	909	1,304
– In two to five years	2,080	3,567
– After five years	346	1,697
Amounts due after more than one year (see note 10)	3,335	6,568
Total Loans	**4,244**	**7,872**

Loan repayments made in the year were £3,628,000 (2016-17: £9,159,000).

Note 13 – Commitments under leases

Operating leases	31 March 2018			31 March 2017		
	Land and Buildings	Other	Total	Land and Buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Minimum lease payments						
- Not later than one year	8,042	1,838	**9,880**	8,475	1,497	**9,972**
- Later than one year and not later than five years	23,140	1,823	**24,963**	22,340	1,127	**23,467**
- Later than five years	103,720	-	**103,720**	105,319	-	**105,319**
Total	**134,902**	**3,661**	**138,563**	**136,134**	**2,624**	**138,758**

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 2018**	**31 March 2017**
	£000	**£000**
Minimum lease payments:		
- Not later than one year	6,259	6,018
- Later than one year and not later than five years	26,397	25,853
- Later than five years	245,539	252,342
Total payment obligations under finance leases	278,195	284,213
- Less interest element	(221,663)	(228,834)
Present value of obligations under finance leases	**56,532**	**55,379**

Present value of lease payment:		
- Not later than one year	6,259	6,018
- Later than one year and not later than five years	17,750	17,392
- Later than five years	32,523	31,969
Total present value of obligations under finance leases	**56,532**	**55,379**

Finance leases relate to the buildings element of longer term lease arrangements for multipurpose test centres which are specialist 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 buildings.

Due to the nature of the finance leases repayments for a number of years at the inception of the lease are lower than the interest accruing in those years at the effective interest rate.

Note 14 – Capital commitments

	31 March 2018 £000	31 March 2017 £000
Contracted:		
Property, plant and equipment	1,222	772
Intangible assets	2,034	785
Total capital commitments	**3,256**	**1,557**

Note 15 – Cash and cash equivalents

	31 March 2018 £000	31 March 2017 £000
Balance at 1 April	141,788	130,411
Net change in cash and cash equivalent balances	10,678	11,377
Balance at 31 March	**152,466**	**141,788**

The following balances at 31 March were held at		
– Government Banking Services	152,403	141,036
– Commercial banks and cash in hand	63	752
Balance at 31 March	**152,466**	**141,788**

Analysis of non-cash transactions for the Statement of Cash Flows:

Adjustments for non-cash transactions	**Note**	**2017-18 £000**	**2016-17 £000**
Depreciation, amortisation, impairment and profit/loss on asset disposal	6/7	20,099	24,054
Provision provided in year and written back, less unwinding discount	11	(3,468)	4,349
Dividend accrual	5	(7,540)	(6,298)
		9,091	22,105

Note 16 – Financial Risk Management

Fair values – The carrying values of the agency's financial assets and liabilities at 31 March 2018 are considered to represent fair value. This is due to the short term nature of the financial instruments held.

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.

The carrying amount of the financial assets £166,497,000 (31 March 2017: £159,991,000) represents the maximum credit exposure.

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

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

Interest Rate Risk –The interest-bearing loans represent 1% (2016-17: 3%) of total Taxpayers' Equity. There is no risk as the interest rates were fixed at the time of the loan issue and are identified in note 12. No loans were received in 2017-18 (2016-17: nil).

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. Where there is exposure to foreign exchange rates, the risk is tolerated.

Note 17 – Contingent liabilities

There are no contingent liabilities (2016-17: none).

Note 18 – Related party transactions

DVSA is an executive agency of the Department for Transport (DfT). DfT is regarded as a related party. During the year, DVSA has had a significant number of material transactions with DfT primarily in relation to grant and loan funding, and with other entities for which DfT is regarded as the parent Department, including the Driver and Vehicle Licensing Agency (DVLA).

In addition, the agency has had various material transactions with other government departments and other central government bodies.

No Board member, key manager or other related party has undertaken any material transactions with the agency during the year (2016-17: none).

Note 19 – Events after the reporting period

There have been no events since the 31 March 2018 to the date the Accounts were authorised for issue which would affect the understanding of these Accounts.

Note 20 – Authorisation of Accounts

These Accounts are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. IAS 10 requires DVSA to disclose the date on which the Accounts are authorised for issue. This is the date that the Comptroller and Auditor General signs the certificate.

Note 21 – Graduated fixed penalties and deposits

DVSA collects fixed penalty fines issued by the police and authorised DVSA representatives for vehicle related offences on behalf of HM Treasury. These are paid to the Consolidated Fund.

This note is produced under International Financial Reporting Standards (IFRS) on an accruals basis and gives a true and fair view of the state of affairs as at 31 March 2018 relating to the collection and allocation of taxes, licence fees, fines and penalties for the year then ended. The transactions do not form part of DVSA's Accounts, instead the memorandum below shows the substance of activity.

In some instances where an offender cannot supply a satisfactory UK address they are asked to give a deposit in respect of a fixed penalty or as a form of surety in respect of a fine where an offence is to be prosecuted in court. Court deposits are held in a designated non-interest bearing account until such time that DVSA is notified by the court of their decision. If the defendant is found guilty then DVSA makes a payment to the appropriate court. Where a defendant is found not guilty the deposit is refunded.

DVSA also collects bus penalties issued by the Traffic Commissioners to operators of local bus services who have failed to run the service or have not done so in accordance with the registered particulars or in contravention of a Quality Partnership Scheme.

Cash collections	**2017-18 £000**	**2016-17 £000**
Revenue for offences in:		
Fixed penalties	3,861	4,035
Bus penalties	1	24
Total Revenue	**3,862**	**4,059**
Cash losses including bad debt	-	(1)
Net revenue for the Consolidated Fund	**3,862**	**4,058**

Balance held on behalf of HM Treasury	**31 March 18 £000**	**31 March 17 £000**
Current Assets:		
Debtors	13	19
Cash and cash equivalents held in trust	1,309	698
Total Assets	**1,322**	**717**
Current liabilities:		
Court deposits	(73)	(59)
Total Liabilities	**(73)**	**(59)**
Balance due to Consolidated Fund	**1,249**	**658**

Cash balance movement	**2017-18 £000**	**2016-17 £000**
Net revenue for the Consolidated Fund	3,862	4,058
(Increase)/ Decrease in debtors	6	(4)
Increase/ (Decrease) in liabilities	14	16
Cash paid to the Consolidated Fund	(3,271)	(4,155)
Net increase/(decrease) in cash and cash equivalents	**611**	**(85)**
Cash and cash equivalents at the beginning of the year	698	783
Cash and cash equivalents at the end of the year	**1,309**	**698**

Annex A

Treasury Minute setting DVSA's further financial objectives

Driver and Vehicle Standards Agency

Treasury Minute Dated 31 March 2016

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

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

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

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

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

2 A trading fund for the Driver and Vehicle Standards Agency was established on 1 April 2015 under the Driver and Vehicle Standards Agency Trading Fund Order 2015 (SI 2015 No. 41).

3 The Secretary of State for Transport, being the responsible Minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by the Driver and Vehicle Standards Agency Trading Fund for the 5-year period from 1 April 2015 to 31 March 2020 shall be to achieve a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities after the recognition of interest receivable, but before interest and dividends payable, expressed as a percentage of average capital employed. Capital employed shall equate to the capital and reserves, i.e. the Public Dividend Capital, long-term element of Exchequer loans, and reserves.

4 This Minute supersedes that dated 5 June 2014.

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.

Annex B

Sustainability report

This Annex is divided into 2 sections**:**

- What we are already doing – this provides information on some of the current activities that the agency is doing around sustainability
- Performance against the Greening Government Commitments (GGC) – this provides further analysis of agency's performance against the Greening Government Commitments (GGC)

What we are already doing

Whilst the Sustainability Strategy is new it enables us to build on activities that we already do as a responsible business. But, as a road safety organisation, we recognise that we have an opportunity and an obligation to contribute to Sustainable Development in the UK particularly in the transport sector.

Here are some examples of our progress so far:

Sustainable Road Use

To make sure we are having a positive impact on UK air quality, we have completed 5 pilot projects over the last year for road check sites of vehicle emissions testing as part of commercial vehicle enforcement. These pilots successfully identified cheat devices in 6% of vehicles tested, helping to limit harmful air emissions from vehicles.

64% of our pool and company car fleet is now sub 102gCO_2/km, and the remaining fleet is sub 110gCO_2/km. In the year we purchased 259 new vehicles, and replaced 126 of our 160 fleet motorcycles with brand new models.

All new cars and motorcycles are now being leased on a 3-year rolling contract, meaning our fleet is replaced and refreshed regularly, allowing us to keep up with the latest technology and to keep our fleet efficient and low-carbon.

We deliver over 1.8 million practical driving tests and 2 million theory tests every year to keep people safe on the roads.

There are 153,000 MOT tests every day across the UK all of which test vehicles for exhaust emissions and particulates, keeping our vehicles safe to drive and improving air quality.

3.4 million people access our MOT reminder service every year, helping to make it easy and convenient for people to keep on top of their vehicle's safety.

We carry out over 800,000 lorry, bus and coach tests annually to keep the vehicles on the road safe to drive.

Sustainable Communities

We have exceeded our target of paying 95% small and medium size enterprises within 5 working days of receiving an invoice, to support small businesses.

All of our permanent staff can use 3 days every year to volunteer, helping to make a real difference in the communities we live and work in.

MOT histories of vehicles are queried approximately 3.4 million times every month by motorists and those in the motor trade, helping keep our services convenient.

Sustainable Service Delivery

We have made significant efforts to improve worker wellbeing during the year. This has included rolling out free physiotherapy, flu jabs, and access to mental health officers and a help employee assistance programme.

Respect in the Workplace and Unconscious Bias training is being rolled out across the organisation.

We have reduced waiting time for large goods vehicles (LGVs) driving tests from 6 weeks to 1.5 weeks, supporting individuals to reach their career goals more quickly, and positively impacting on the UK economy.

We purchased tablets for driving examiners to improve the flexibility of our staff and improve the efficiency of the licence acquisition process.

We have taken an earned recognition approach to enforcement to focus our efforts on the non-compliant road users.

Sustainable Partners and Suppliers

We enable 23,000 small vehicle testing garages to operate as MOT providers and making sure strict standards are followed. This not only supports small businesses and their employees but also contributes to employment and the UK economy

Sustainable Assets and Estates

We have already reduced our waste sent to landfill by 20% since 2009-10.
We have already reduced our carbon emissions by 47% since 2009-10.

Performance against the Greening Government Commitments

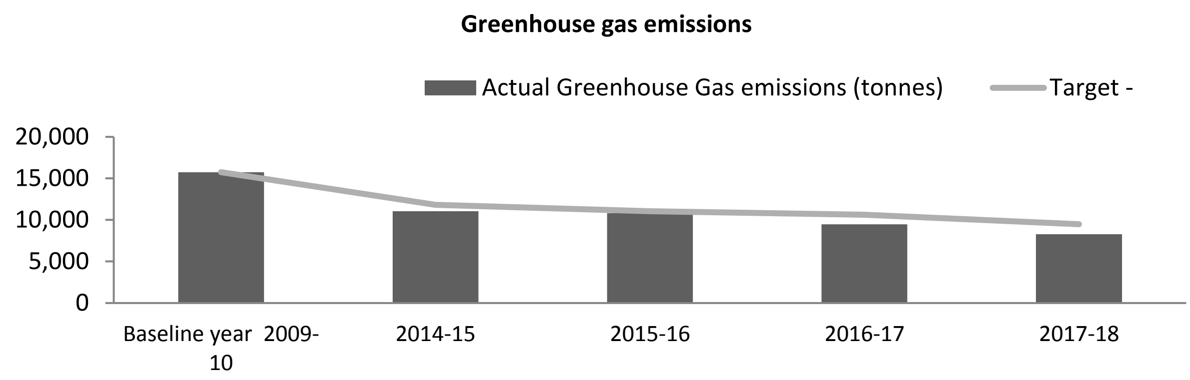
This section describes DVSA's performance against the Greening Government Commitments (GGC) and is produced in line with HM Treasury Public Sector Annual Reports: Sustainability Reporting Guidance 2017-18. The report includes a range of environmental performance indicators, sets out our performance against the 2009-10 baseline year and sets out the steps being taken to reduce the agency's environmental impact.

The tables below show the agency's performance against the updated Greening Government Commitments targets that were launched in December 2016.

Greenhouse gas emissions

DVSA's target is to reduce greenhouse gas emissions by 36%, 10,078 tonnes of CO_2 equivalent, by 2020. Performance towards this target is set out in the following table. Emissions are defined under three different scopes by the Greenhouse Gas Protocol. See www.ghgprotocol.org for further details.

Greenhouse Gas Emissions (tonnes CO_{2e})	**Baseline year (2009-10)**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Annual Target	15,748	11,811	11,040	10,647	9,488
Actual emissions:					
Scope 1: Direct emissions	4,323	3,246	3,915	3,524	2,164
Scope 2: Indirect emissions from purchased electricity	7,064	4,664	4,112	3,548	3,619
Scope 3: Other indirect emissions (including business travel in vehicles not owned by DVSA)	4,361	3,130	2,809	2,417	2,519
Total emissions	**15,748**	**11,040**	**10,836**	**9,488**	**8,302**
Total emissions per FTE	3.2	2.5	2.5	2.1	1.8



The agency's performance in reducing greenhouse gas emissions already exceeds the 2020-21 target. This has been achieved by reductions in electricity use due to site closures, by increased travel by rail for business and significant reductions in business travel by road and air. The introduction of the Redfern travel has reduced financial burden of accessing rail travel across the business. Administrative travel has reduced also since the introduction of Office 365 and other tools such as 'Hubs' (teleconferencing) at main admin sites and Skype. Information about the agency's energy consumption and expenditure on energy and about business travel is set out in the following tables.

Energy consumption	**Baseline year (2009-10)**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Electricity consumption (GWh)	13.3	8.7	8.2	7.9	8
Gas Consumption (GWh)	11.5	7.5	8.6	8.7	8.6
Oil and LPG consumption (GWh)	1.6	1.1	0.8	1	0.6
Energy use per FTE (kWh)	5,343	3,903	4,023	3,955	3,761
Total energy expenditure (£m)	2.3	1.9	1.7	1.6	1.6
Energy expenditure per FTE (£)	474	426	381	361	337

Business travel	**Baseline year (2009-10)**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Domestic air travel (number of flights)	2,742	1,571	1,339	1,589	450
Business travel (all modes – millions of km)	31	29	29.8	27.5	24.4
Business travel per FTE (km)	6,287	6,575	6,773	6,175	5,194

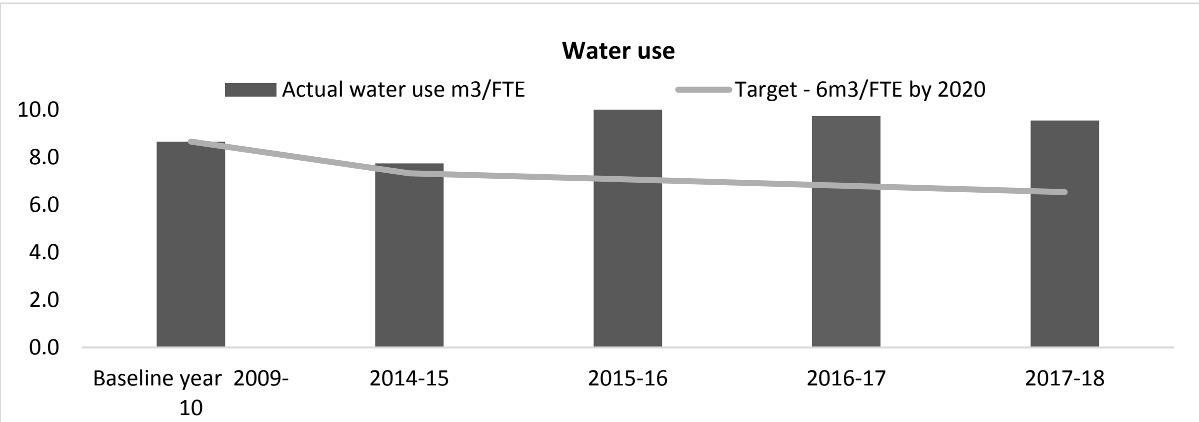
During 2017-18 we have purchased the following vehicles in terms of CO_2 emissions:

Emissions (g CO_{2e} per km)	Number of vehicles purchased
96	197
99	2
102	60
134	5
Emissions information not available	162 (motorcycles)

Water use

DVSA's target is to reduce water use to 6m^3/FTE (including staff and visitors) by 2020. Performance towards this target is set out in the following table:

Water use (m^3/FTE)	Baseline year (2009-10)	2014-15	2015-16	2016-17	2017-18
Annual Target	8.7	7.3	7.1	6.8	6.5
Actual	8.7	7.7	10.3	9.7	9.5



DVSA has reduced its water consumption by 2% in 2017-18. Water consumption has been investigated at various sites and the agency continues to focus on sites that exceed benchmark consumption. Water services are being modernised at sites where the opportunity arises and high water use is being tackled through engagement with staff and identifying potential water leaks.

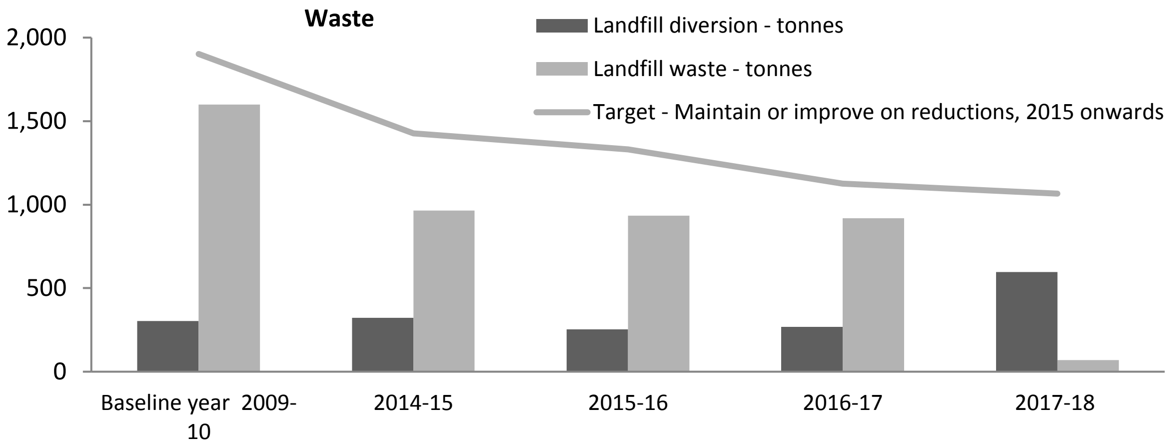
Further information about the agency's water consumption and expenditure on water is set out in the following table.

Water	Baseline year (2009-10)	2014-15	2015-16	2016-17	2017-18
Water Consumption m^3		54,949	72,867	69,118	67,799
Total Water Expenditure £000s	340	438	363	449	554
Water expenditure per FTE (£)	67	99	83	101	117

Waste

DVSA's target is to reduce the amount of waste going to landfill to less than 10% by 2020, equivalent to less than 190 tonnes. Performance against the target is set out in the following table:

Waste (tonnes)	**Baseline year (2009-10)**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Annual Target	1,902	1,426	1,331	1,125	1,066
Actual	1,902	1,289	1,187	1,186	666
Of which:					
1) Landfill diversion	303	323	254	269	373
1a) Total recycled					*93*
1b) Total incinerated with energy recovery					*280*
2) Waste to landfill	1,599	966	933	917	293



The findings of an estate-wide waste audit, completed in May 2017, shows DVSA has made a significant change to waste, reducing overall arisings to just 666 tonnes and improving landfill diversion rates from 23% to 56%. Only 44% (293 tonnes) of waste now goes to landfill, compared to 85% in the baseline year. This is a significant step towards the GGC target of 10% waste to landfill.

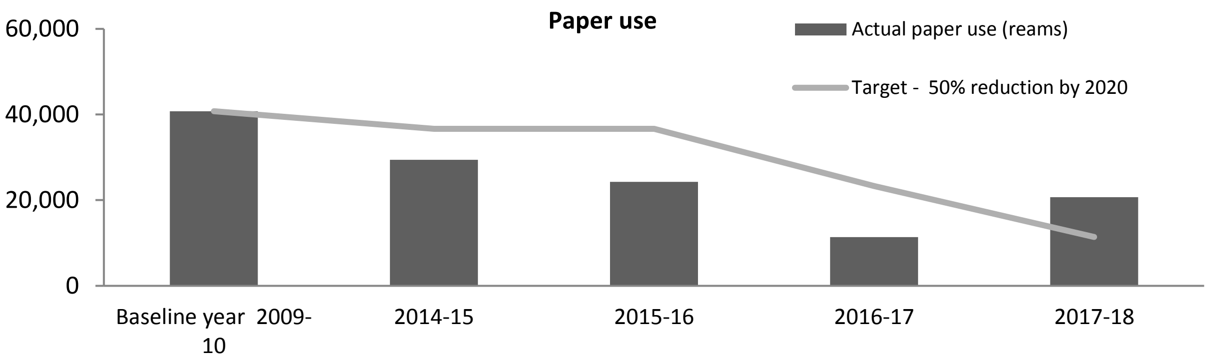
Further information about the agency's expenditure on waste is set out in the following table. Data from 2009-10 to 2014-15 is based on the data for the former Vehicle and Operator Services Agency only, prior to the creation of DVSA. Data from the former Driving Standards Agency is not available.

Waste	**Baseline year (2009-10)**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Expenditure on waste - £000s	98	148	239	215	205
Expenditure per FTE (staff only) - £	35	50	83	48	44

Paper use

DVSA's target is to reduce paper use by 50% by 2020, equivalent to 20,386 reams. Performance against the target is set out in the following table:

Paper use (reams)	**Baseline year (2009-10)**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Annual Target	40,772	36,695	36,695	23,286	11,411
Actual	40,772	29,421	24,252	11,411	20,727



Paper use has increased in 2017-18 compared to 2016-17. Analysis suggests this is as a result of large paper stocks being put by in previous years, as there has not been a change in paper use behaviours across the business. We should see future reductions in paper use with improved IT tools such as tablets and smart phones being rolled out across the business in 2018-19.

Buying 'greener' products and services

DVSA aims to meet its business needs in a way that achieves value for money while minimising damage to the environment. The agency is committed to sustainable procurement and uses Government Buying Standards (GBS) in procuring goods and services such as paper, furniture and electrical goods. The agency uses GBS for construction work, applying the Building Research Establishment Environmental Assessment Method design standards in the construction and redevelopment of sites. The implementation of a new Facilities Management contract during 2017-18 is expected to improve the agency's performance on the management of waste and recycling going forward.

Glossary

ADI	Approved Driving Instructor
ATF	Authorised Testing Facility
CETV	Cash Equivalent Transfer Value
CIPS	Chartered Institute of Procurement and Supply
CPC	Certificate of Professional Competence
DfT	Department for Transport
DVSA	Driver and Vehicle Standards Agency
EU	European Union
FReM	Financial Reporting Manual
FTE	Full Time Equivalent
FYE	Full Year Equivalent
GGC	Greening Government Commitments
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue & Customs
HR	Human Resources
IAS	International Accounting Standard
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
LGV	Large Goods Vehicle
MOT	Annual statutory test for private vehicles
NAO	National Audit Office
PCSPS	Principal Civil Service Pension Scheme
PSV	Public Service Vehicle
ROCE	Return On Cap ital Employed
SoCNI	Statement of Comprehensive Net Income
SoCTE	Statement of Comprehensive Taxpayers' Equity
VAT	Value Added Tax

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