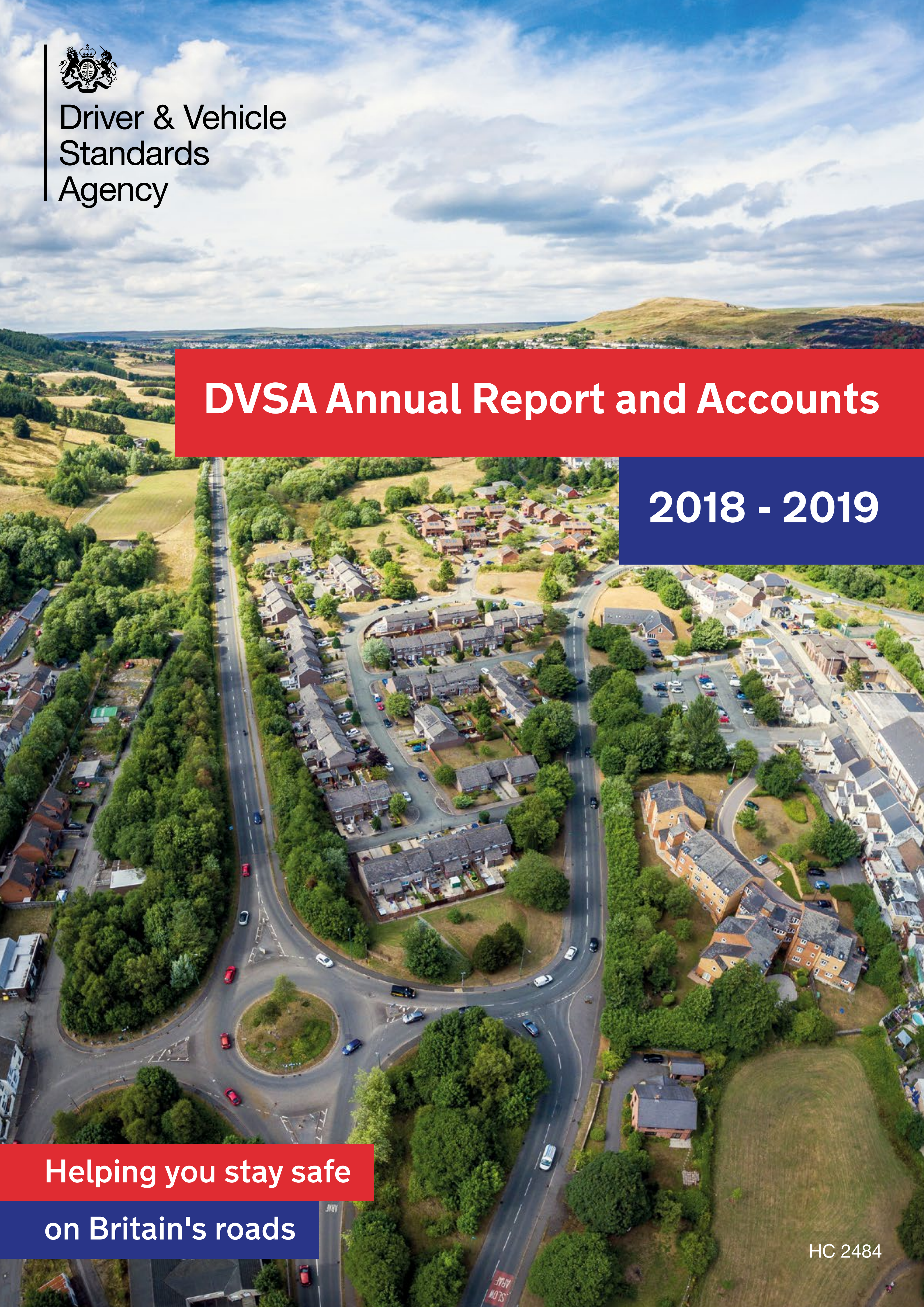

Driver & Vehicle
Standards
Agency

DVSA Annual Report and Accounts

2018 - 2019

Helping you stay safe
on Britain's roads

HC 2484

Driver and Vehicle Standards Agency

Annual Report and Accounts 2018-19

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Foreword

Chair’s introduction

I am proud of the achievements of the Agency in 2018-19 in which we have continued to deliver against our five year strategy. As we embark on the third year, we are preparing to refresh our strategy to refine our strategic aims and to reflect any new influences. We also seek to maintain a rolling five year strategy and will therefore extend our strategy to include a further two years.

I would like to thank our staff for their amazing work in preparing for the UK’s exit from the EU. During the past year we have built a digital system to allocate road haulage permits, introduced a system to aid DVLA with their Trailer Registration Scheme and provided practical support and expertise to Operation Brock, all whilst providing an excellent level of customer service. At the same time, our safety record has improved for both staff and customers. Even so, accidents, some very serious, continue to occur and we will work on reducing them.

We have continued to invest in our people to build a diverse, engaged and involved workforce where people feel valued.

Aligned to our sustainability strategy we have developed an ambitious implementation plan with appropriate measures to monitor our continued progress in this area. Our focus is to improve our role in sustainable road use and communities and consider the implications of road use changes as we move towards more automated and digitalised ways of travel.

Over the past year, we have developed a well-crafted risk appetite, which is helping to inform our risk mitigation assessments and allowing us to give stronger guidance to the business.

This year, the Board loses Fiona Ross, non-executive director, who has come to the end of her term and will be much missed. I look forward to working together with a new member and with the support of existing members of the Board to deliver against our strategy, in improving road safety for all and to deliver our vision of safer drivers, safer vehicles and safer journeys for all.

Bridget Rosewell CBE
DVSA Non Executive Chair

Chief Executive's introduction

I am delighted to present our Annual Report and Accounts for 2018-19.

I would like to start with my colleagues in DVSA. They work across the whole country and in all weathers to keep you, the public, safe as you travel on the road network. They do a fantastic job every day and I am immensely proud of what they have achieved in the past year.

In 2018-19, we delivered all our key performance measures whilst at the same time ensuring robust plans were in place for the UK's exit from the EU. Our vehicle testing staff have delivered 99.9% of all bookings for HGV and PSV testing over the year, whatever the weather. Customers continue to see low waiting times for driving tests due to the fantastic work of our driving examiners and managers. Last year, colleagues in enforcement found over 15,400 serious defects on vehicles, preventing numerous serious accidents. All this is possible due to the commitment and professionalism of all colleagues across DVSA who continue to work hard to ensure safer roads for all.

We delivered important changes to the MOT service to improve road safety and to improve our environment. These changes include stricter limits for emissions on some vehicles, new checks on tyres and an updated design for the MOT certificate to make defects clearer and easier to understand. Over 1.7 million people have now signed up to the MOT reminder service.

We have continued to invest in modern, efficient and sustainable technology to support our workforce and deliver brilliant digital services for our users. This investment includes enhancements to the MOT and Vehicle Operator Licensing services and work on apps for our roadside enforcement staff, together with the digital transformation of the theory and practical driving tests.

To strengthen our enforcement capability we signed an agreement with the Home Office to join the National ANPR (Automatic Number Plate Recognition) Service as part of a twelve-month trial. The service has the potential to transform our enforcement activities and improve our targeting of those who present the highest road safety risk to you, the public.

We have continued to develop and improve the content of the theory test to reflect current hazards. This includes updating the hazard perception test to include new computer-generated imagery clips which simulate driving in adverse weather conditions and in low-level lighting conditions. This should ensure the 2 million people who take the test every year are better prepared to drive in the future.

Our staff engagement score improved for the third year in succession. Over 4,500 colleagues have attended workshops on building respect in the workplace. Alongside the work with our staff network groups, training and development time, our talent management framework, and staff conferences, this investment in our people is aimed at ensuring DVSA is a great place to work for everyone.

We have delivered our surplus and our dividend and exceeded the return on capital set by Government. We have continued to invest in our five year strategy including better tools and technology for our people, so we can deliver a better service.

Thank you to all colleagues who have contributed to another highly successful year for DVSA – you are fantastic.

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 2018-19. It should be read alongside DVSA's Business Plan 2018-19 which sets out our plans and targets. This report covers the agency's accounting period for the year ended 31 March 2019.

This Performance Report section provides information about the agency, its purpose, the main risks to achieving its objectives and its performance during the year. It is followed by the Accountability Report (page 16), which meets accountability requirements to Parliament, and the Accounts (page 37).

DVSA is an executive agency of the Department for Transport (DfT) and operates as a Trading Fund.

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 5 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 we put road safety at the heart of everything we do while giving our customers the best possible user experience. We also make sure our services offer value for money. We employ around 4,800 people across Great Britain.

Our core activities align with our three 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, making sure they test to the right standard

- carry out tests on lorries, buses and coaches and trailers to make sure 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 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

This is an illustration of the scale and scope of some of our work during the year ending 31 March 2019.

2 million
candidates sat a driver theory test

1.9 million
driving tests carried out

79,000
licenced vehicle operators

198,000
vehicle and driver checks

676,000
HGV tests carried out

38.5 million
MOT certificates issued

The services 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 our services very seriously. We have a process to make sure risks and challenges are addressed at the appropriate level in the agency. We have set out our risks and risk management processes within our Governance Statement on page 18.

Performance Analysis

Key performance measures

Our key performance measures in the year ended 31 March 2019 were designed to measure how we performed against our core road safety objectives and were set out in our 2018-19 Business Plan at the start of the accounting period. DVSA's Board monitors performance against these measures each month, identifying risks and putting in place mitigating actions.

Under the three strategic themes, we describe our performance during the year, including performance against the key performance measures and other highlights.

Helping you through a lifetime of safe driving

Key Performance Measure	Target	Outcome	
80% of candidates book their practical driving test within 6 weeks of their preferred date	80%	88.1%	Achieved
Offer candidates an appointment at their preferred theory test centre within 2 weeks of their preferred date	95%	96.1%	Achieved

Better information and training for drivers

We continue to build on the learning interventions and initiatives which we developed in the first year of our strategy. These programmes inform, educate and advise people on safe driving.

From 4 June 2018, learner drivers were able to take driving lessons on motorways in England, Scotland and Wales. To make this happen, we worked closely with our partners, including Highways England and the Approved Driving Instructors' national associations to provide information, support and advice to driving instructors and learner drivers and help them understand this change in the law and its impact. Learner drivers will now gain crucial practical knowledge and real-life experience of motorway driving under expert supervision.

Raising driving standards

As part of our transformational improvements for our customers and staff we have provided mobile technology to all driving examiners. This enables them to confirm a test candidate's identity and check the test vehicle's details.

Improving test availability

In 2018-19 waiting times for practical driving test appointments have continued to improve. The average waiting time has reduced from 6.6 weeks to 6.1 weeks year on year. This has been achieved through working with our staff to increase utilisation, including offering evening appointments during the summer and re- deployment of examiners to locations with high demand.

Keeping your vehicle safe to drive

Key Performance Measure	Target	Outcome	
Keep appointments to deliver heavy vehicle testing at Authorised Testing Facilities (ATFs)	98% of the time	99.9% of the time	Achieved
Implement changes to the way we work in line with the EU Roadworthiness Directive (see Raising vehicle standards below)	From May 2018	Implemented on time	Achieved

Raising vehicle standards

We implemented the EU Roadworthiness Directive in May 2018. This included enhancements to MOT testing, heavy vehicle annual testing and roadside enforcement checks.

The main changes to vehicle testing are:

- to show the category of each defect on the test certificate so motorists understand the nature of the defect and how serious it is
- a stricter limit on emissions for diesel cars fitted with a particulate filter
- new vehicle checks including tyre inflation, brake fluid, and additional warning light checks

During the year, around 750,000 cars failed the new emissions test compared to 350,000 during the previous year. These cars have either been taken off the road or fixed, helping to improve air quality.

Better information for drivers and vehicle testers

We published a new testing manual, reflecting the EU Roadworthiness Directive changes, which is used for vehicle testing in Britain. We also published training materials to help testers and their managers to understand the changes.

Carrying out vehicle testing

We implemented the next phase of improvements to our Heavy Goods Vehicle (HGV) testing service. The biggest change is test certificates for HGV, public service vehicles and trailers will now be individually printed on plain paper, instead of issuing pre-printed certificates. We also stopped issuing trailer test expiry discs. MOT status and history is available on line at GOV.UK, and now includes all heavy vehicles and trailers.

We have started to transform commercial vehicle testing. We have developed new technology in house putting us in control of the software and systems we need. We have built a new app to support our staff in recording test results, and a new web portal so Authorised Testing Facilities (ATFs) can access information on transactions. Once fully tested and commissioned, these new tools will deliver more efficient working and a better customer experience.

Protecting you from unsafe drivers and vehicles

Key Performance Measure	Target	Outcome	
Increase by at least 5% from 2017-18 outturn, the number of MOT cases where we act upon the most serious fraud, dishonesty and negligence	+5%	+35%	Achieved
Detect serious roadworthiness defects and traffic offences	28,000	31,958	Achieved
Develop a plan for a national programme of roadside emissions checks on HGVs	By September 2018	Achieved	Achieved

Better information for drivers and operators

In November we published the latest edition of the "Guide to Maintaining Roadworthiness". This explains the responsibilities and systems involved in keeping commercial vehicles in a roadworthy condition.

Raising standards for vehicle operators and manufacturers

During the year we launched the DVSA Earned Recognition scheme. The scheme is voluntary and a way for operators to prove their organisation meets driver and vehicle standards through sharing performance information with us. Operators who have a strong track record of road safety compliance and keeping within the law are less likely to be stopped for inspections. This allows us to focus roadside inspections the seriously and serially non-compliant.

To support the launch of the Earned Recognition scheme, we have developed a range of new compliance management tools. All operators and transport managers can use and benefit from these tools regardless of whether they seek recognition through the scheme.

Enforcing the standards

During the year there were 474 cases where we identified and acted upon the most serious MOT fraud, dishonesty and negligence which is an increase of 35% on the previous year. Cases included examples where the MOT tests were conducted substantially incorrectly, or where fraudulent MOTs were conducted, often linked to irresponsible or unlawful car sales. In the most serious cases, this can lead to loss of authority to test, prosecution and imprisonment. This performance has been achieved by better identifying the garages that showed risk of wrongdoing and targeting resources towards those.

To further reduce MOT fraud, we have developed a predictive analytics tool which has improved the process for identifying fraud and inadequate standards. Using this machine learning tool, we are now able to identify abnormal MOT testing behavioural patterns, thus allowing us to effectively target enforcement and inspection activities, ultimately improving Britain's road safety.

A plan for a national programme of roadside emissions checks on heavy goods vehicles was developed during the year. This included training all enforcement staff on finding cheat devices used to bypass requirements to use the diesel "AdBlue" fuel supplement.

Our frontline enforcement staff have started to use our new innovative in-house Search app which saves time at enforcement stops. By scanning a vehicle's registration number or vehicle identification number (VIN) with their smartphone or tablet, our staff can now quickly access all the information they need to do their jobs. This includes the vehicle's testing history and any previous mechanical or driver problems. The app also allows access to automatic number plate recognition (ANPR) information which can be used to validate drivers' hours records.

We estimate this faster access to information could save compliant operators as much as 15-20 minutes at each enforcement stop which means their vehicles get back on the road faster.

We have continued ensuring vehicle safety defects are managed in line with the Vehicle Safety Defects and Recalls code of practice, with recalls being conducted when needed. We have continued to develop the Market Surveillance Unit (MSU) service: this is a team delivering a programme of market surveillance, checking a sample of vehicles and components available in Great Britain and taking action where they are not compliant with environmental or safety standards.

In March 2018 new legislation was introduced giving us the power to issue penalties for historic drivers' hours offences. These are driving time infringements committed up to 28 days in the past, but detected at a later date during an enforcement check. This has enabled us to more appropriately penalise serial offenders. It has also led to an increase in GFPD fines raised during the year to £6.6m which are paid to the Treasury's Consolidated Fund, as set out in note 21 to the Accounts. This increased level of income is expected to continue in future years.

Delivering for our customers

Measure	Target	Outcome	
Freedom of Information Act – provide a response within 20 working days	93%	99.5%	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
Maintain or improve satisfaction levels of the outcome of complaints	60%	65.2%	Achieved
Develop a customer centric set of measures to support DVSA in developing its services across the UK	By December 2018	Achieved	Achieved

Customer services

Our Customer Service Centre located across Newcastle and Swansea has retained its accreditation with the Customer Contact Association (CCA). It was awarded a bronze standard for achieving a high level of accreditation for more than five years running, and it is one of only 15 centres, in the public and private sectors in the UK, to have achieved this recognition. Once again, the assessors were extremely complimentary about the hard work and dedication of all staff across the two sites.

We continue to focus on improving customer satisfaction and resolving all customer complaints as quickly as possible. The overall number of complaints has reduced by 7.2% to 5,973 (2017-18: 6,435).

Delivering value for money

Measure	Target	Outcome	
Deliver a surplus	£2.8m	£4.3m	Achieved
Deliver efficiency savings	£6.3m	£6.6m	Achieved
Payment of invoices within 5 working days	80%	92.4%	Achieved
By 31 March 2019 full time equivalents will be no more than 4,648 (full time equivalent), based on current forecast demand for services	4,648	4,575	Achieved
Reduce the average number of working days lost (per FTE) due to sickness by 0.2 days against the 2017-18 baseline of 10.37	0.2 days reduction	0.46 days reduction	Achieved
Develop and implement a plan to improve the mental wellbeing of our employees	By March 2019	Achieved	Achieved

Our people

The average number of working days lost (per FTE) due to sickness is 0.46 days lower than the baseline target of 10.37. This was achieved through increasing support to include mental health and wellbeing as well as for physical conditions. We have introduced mental health first aiders across the organisation and improved awareness of the support available.

During the year we have continued to roll out our middle and senior management development offering. We have 30 managers enrolled on Level 3 & 5 Leadership and Management Apprenticeships. We have introduced our in-house programmes, In Gear and Stepping into Leadership, and over 100 managers have now benefited from these new modular structured programmes.

Digital, data and technology

We have continued to reduce our IT costs and the savings have contributed towards the achievement of business plan target for efficiency savings, as shown in the table above. The savings were made by insourcing some IT support services and by updating and re-contracting some of our IT contracts.

We have continued to move our IT services to a cloud-based system to improve efficiency and reliability, giving our people the technology they require to do their jobs even more effectively.

Financial performance

Total income for the year was £384.4m (2017-18: £387.6m), which is slightly below plan. This is due mainly to lower demand for theory tests and income in 2017-18 from reducing car practical test waiting times.

Fees for driving tests have not increased since 2009 and fees for vehicle tests and MOT slots have not increased since 2010. If fees had increased in line with inflation they would be 18% and 16% higher respectively.

Total expenditure for the year was £380.1m (2017-18: £373.8m), which was slightly below plan. This includes £14.8m (2017-18: £17.5m) of non-capital investment spend in support of our 5 year strategy.

We have delivered new services during the year including preparing for EU Exit and increasing activity in the Market Surveilance Unit (MSU). This expenditure was covered by funding from HM Treasury and DfT.

An analysis of financial performance by activity is provided in Note 2 to the Accounts.

We delivered £6.6m (2017-18: £8.8m) of efficiency savings in year as agreed in the Comprehensive Spending Review 2015 (SR15). In total we have now delivered £50.7m savings across the SR15 period.

We have continued to invest to support delivering our strategy. Capital expenditure for the year was £38.8m (2017-18: £20.6m). Of this, £24.5m was invested in IT software, including enhancements to the MOT service, enhancements to the operator licencing service, and necessary enhancements to our IT systems in readiness for EU Exit. £14.4m was invested in tangible assets, including enhancements to vehicle enforcement sites in readiness for EU Exit, improvements to other operational sites, IT hardware and enforcement vehicles. Capital expenditure has been funded from cash generated from operations, from reserves and from specific grant funding from Treasury to cover EU Exit. More details are given in Notes 6 and 7 to the Accounts.

As a result, the agency has delivered a post-dividend surplus of £4.3m for the year (2017-18: £13.8m), against plan of £2.8m. This will be used to:

- continue to invest in 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 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 to release capital

- continuously improve modernised technology services to meet user needs, for example, for the MOT service and Vehicle Operator Licensing service

- invest in modernising internal systems to improve efficiency. In the medium and longer term we are seeking further efficiency savings to offset – as far as possible - any fee increases necessary to cover the costs arising from the investments in modernising services

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

Delivering sustainability

We take our environmental responsibilities seriously and aim to operate in an environmentally responsible and sustainable way.

This section summarises our performance against the Greening Government Commitment targets (2016 – 2020).

Measure	Greening Government Commitment	2009-10 Baseline	2018-19 Target	2018-19 Outturn	Change from baseline
Greenhouse gas emissions	By 2020, reduce total carbon emissions by 36% of 2009-10 levels (tCO2e)	15,748	8,302	8,200	-48%
Greenhouse gas emissions	By 2020, reduce the number of domestic business flights by more than 30% of 2009-10 levels	2,742	450	356	-87%
Water use	By 2020 reduce water use to $6m^3$/FTE	8.7	6.3	11.9	+37%
Waste arising	By 2020, reduce the overall amount of waste (tonnes)	1,902	666	686	-64%
Waste to landfill	By 2020, reduce waste to landfill to 10% or less	84%	44%	42%	-42 percentage points
Paper	By 2020, reduce paper use by 50% of 2009-10 levels (A4 reams)	40,772	20,727	32,145	-21%

The reduction in greenhouse gas emissions is ahead of the 2020 target for a 36% reduction. This has been achieved through changes in travel behaviours across the agency.

Water use reduction targets have not been achieved in 2018-19. In 2019-20 we will focus on better measurement and analysis, leak detection and timely resolution at sites exceeding the benchmark consumption.

Following an agency wide audit, we are now able to more accurately measure the waste we produce. This has resulted in a 1,216 tonne saving against the baseline year, and reducing our waste to landfill, as a proportion of total waste, to 42%. We have taken steps to reduce the amount of unnecessary use of plastic used, with the aim of eliminating the use of single use plastic cups at administrative offices. We have not maintained the low level of paper consumption achieved in 2017-18.

In 2018 the Board approved a new sustainable development strategy. During the year, we created a three year sustainable development implementation plan, linking actions and activities to the strategy, to ensure we deliver our services in a more sustainable way.

More details on environmental performance are provided in the sustainability report 2018-19 in Annex B.

Chief Executive and Accounting Officer
27 June 2019

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 2018-19 (https://www.gov.uk/government/publications/government-financial-reporting-manual-2018-to-2019).

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 2018-19, 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 2019 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.

In 2018-19, 96 personal data related incidents were reported to the Information Commissioner's Office (ICO). These in the main related to individual instances where information was sent to a candidate's former address. Where a breach had occurred or may have occurred, appropriate security measures were put in place and all recommendations by the ICO have been actioned.

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 2019 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
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 auditor is aware of that information.

Governance Statement

Accounting Officer's introduction

The Treasury has appointed me as the Chief Executive as Accounting Officer for the agency. As Accounting Officer, I am responsible to Parliament for safeguarding the public funds; for ensuring propriety, regularity, value for money and handling of public funds. In addition, I am accountable to the minister for the day-to-day operations and management of DVSA, including the efficient and effective use of staff and other resources. 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 2019.

Governance framework

DVSA follows the arrangements set out in agreement with DfT in our Framework Agreement document. This document sets out 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 HMT Corporate Governance in Central Government Departments: Code of Good Practice 2017. I have ensured that our governance structure is designed to comply with the Code.

The Board

The DVSA Board is responsible for setting the strategic direction of the agency and provides oversight of business objectives, key risks and governance responsibilities. The Non-Executive Chair is appointed by the Secretary of State. Their principal responsibility is to chair the DVSA Board with the purpose of guiding, supporting and challenging the strategy of the agency. Non-Executive Directors provide independent external advice and expertise to inform the decision making process.

The Board undertakes annual effectiveness review of its performance against Cabinet Office, National Audit Office and external good business practice governance guidance. There were no significant issues to address from the in-year review.

Audit & Risk Committee

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

Health & Safety Committee

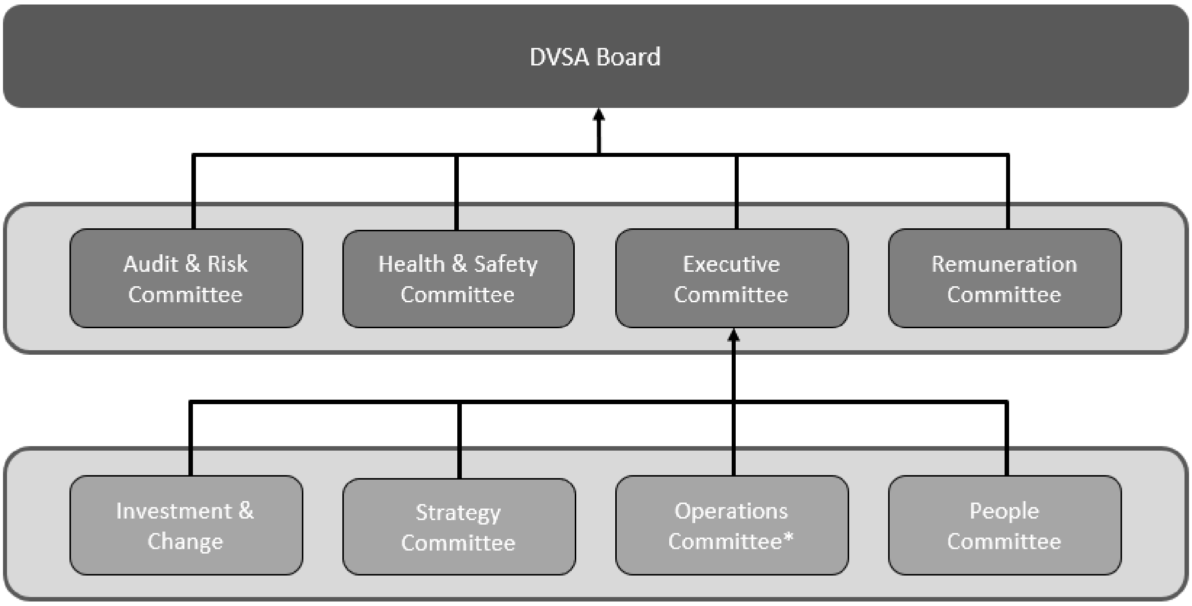
The Board is supported by the Health and Safety Committee, also chaired by a Non-Executive Director to advise on matters regarding health and safety policy, structure and communication, reviewing these against the respective legal obligations. Incidents and near misses are also investigated and reported.

Remuneration Committee

The role of the Remuneration Committee is to make recommendations to DfT and the Chief Executive on all aspects of remuneration decisions for DVSA's Senior Civil Servants (SCS) in accordance with current pay guidance and with regard to equal opportunities. It also plans for the succession of the organisation into SCS posts, noting key roles and potential risks.

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.



*The Operations Committee met until January 2019. Its duties are now governed by the other Committees

Board & Committee attendance

	DVSA Board Meetings attended/Eligible meetings	**Audit & Risk Committee** Meetings attended/Eligible meetings	**Remuneration Committee** Meetings attended/Eligible meetings
Current Board members			
Bridget Rosewell – Non Executive Chair and Remuneration Committee Chair	8/8	n/a	1/1
Shrinivas Honap - Non Executive Director and Audit & Risk Committee Chair	8/8	6/6	1/1
Fiona Ross - Non Executive Director	8/8	6/6	1/1
Ian Baulch-Jones – Non Executive Director	8/8	6/6	1/1
Gareth Llewellyn - Chief Executive Officer	8/8	5/6	1/1
Helen Milne – Director of Finance & Corporate Services	7/8	6/6	n/a
Peter Hearn - Director of Operations (North)	8/8	n/a	n/a
Richard Hennessey – Director of Operations (South)	8/8	n/a	n/a
Adrian Long - Director of People, Communications & Engagement	8/8	n/a	n/a
James Munson – Director of Digital Services & Technology	8/8	5/6	n/a

Wider governance

The agency is sponsored by DfT. Through regular reporting and attendance at the DVSA Board, the DfT representatives help 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.

Management of our risks

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

Risk management is integral to the agency's planning, governance and quality assurance processes. The agency has an integrated risk management process, where risks are identified and managed at the right level. This year the Board has set its risk appetite and receives regular reporting to show where risks are outside of their appetite.

The Executive Committee and Board consider risks on an ongoing basis using a comprehensive risk register and a structured approach so that risks are escalated as necessary through reporting hierarchies. The Audit & Risk Committee also reviews the Agency risk register and is updated on the risk management process on a quarterly basis. Significant risks are escalated to DfT for information or to seek support in accordance with guidance set by the Department and HM Treasury.

In addition to the inherent risks that are always monitored, such as road safety standards, cyber security and health and safety, the key areas of risk monitored by DVSA in 2018-19 were:

- EU Exit – ensuring mitigation plans are in place so we can deliver our commitments under any potential outcome

- IT Provision – ensuring we have sufficient capability to manage our IT services necessary to serve our customers and deliver our strategy

- Staff Recruitment and Retention – ensuring we have the right staff, with the right skills to deliver our services to customers and to deliver the agency's change programme.

- Industrial Relations – ensuring positive relations to minimise the risk of industrial action on the services we provide to our customers.

- General Data Protection Regulation (GDPR) Readiness and Compliance - The Senior Information Risk Owner (SIRO), the Board and the Audit & Risk Committee monitored the agency's preparations to comply with GDPR which came into force on 25 May 2018. A DfT GDPR Working Group, chaired by the Departmental Data Protection Officer, has also been established

Assurance mechanisms and controls

There are a number of internal control processes which provide 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. These statements are a key part of the system of internal controls and the responses were compiled by subject matter experts, challenged by internal audit, the Executive Committee, DfT and signed off by Audit & 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.

b) Information security procedures

Data controls are led by the Senior Information Risk Owner (SIRO), who receives monthly reports on information risks. The SIRO is accountable for information risk and is supported by a Head of Information Management and Security & Data and Information Asset Owners, who are accountable for the day to day control of information.

Data controls are under constant review and testing of DVSA systems is conducted regularly. All staff complete regular training and targeted training is provided for roles that have higher levels of responsibility for customer data.

A new data strategy was adopted during the year which recognises the value of the data that DVSA processes and sets out how it will be used within the legislative frameworks to improve our services. Benefits of the strategy include ensuring compliance with Government policy, adopting additional controls and enabling more efficient use of data.

c) Analytical models

The agency has established a Quality Assurance framework in line with DfT criteria that is used to assure all our business critical analytical models against DfT and so called Macpherson requirements.

d) Project and portfolio assurance

The agency has an assurance function providing support to the portfolio of projects and programmes. The assurance function adopts a risk-based approach to assigning tiered project controls and is engaged with the DfT Centres of Excellence to ensure its practices are robust. DfT and Cabinet Office spend controls are fully implemented, and up to date, within DVSA's Assurance Framework. This framework has been improved by aligning it to DfT's Business Case Approvals Framework. The assurance function assures our projects and programmes in accordance with PRINCE2 project management principles.

e) Financial management and stewardship

DVSA follows all governance and assurance processes as required by HM Treasury and is audited by the Comptroller and Auditor General. The delegated authorities for DVSA, including financial delegations, are set out each year 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 Board.

f) 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 Board and comply with Cabinet Office and DfT guidance.

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

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

Ministerial directions

The Permanent Secretary of the Department for Transport sought a ministerial direction on 7 February 2018 as elements of the agency's EU Exit preparation spending relating to the Haulage Permits, Trailer Registration Bill and preparation work at UK ports commenced in advance of receiving Royal Assent. The process followed was in line with guidance issued by HM Treasury and the Department for Exiting the European Union. The Statutory Instrument received Royal Assent on 19 July 2018 and expenditure by the agency before this date was within the scope of the ministerial direction. During 2018-19 the agency incurred costs of £6.6 million in respect of these work streams.

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 (GIAA) which provides a qualified audit team to complete a programme of audits.

The audit programme continued to look at areas of transformation in the business with focus on the revised structure within Operations and its impact on front line management. Following the migration of the accounting system to SAP in the latter part of 2017, several assignments were carried out looking at key financial recording and decision making information processes. Further work included reviews driven by preparations for exiting the EU and the introduction of new legislation in relation to GDPR.

Work in 2019-20 will focus on some of the significant changes made as a result of our work in prior years in Programme and Project Management, Benefits Management and DVSA's ability to meet the technological challenge, particularly in implementing the five year strategy. GIAA will also support DVSA in implementing its Assurance Strategy.

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 2018-19 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 of the executive managers and by comments made by the NAO in their management letter and other reports.

I am in agreement with the assessments of the Agency's Head of Internal Audit and the 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.

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 remuneration of Senior Civil Servants (SCS) is set by the Prime Minister following independent advice from the Senior Salaries Review Body.

The agency was required to adopt the DfT harmonised model including the Modernised Employment Contract as agreed between the Trade Unions, DfT and HM Treasury. This includes the terms and conditions relating to the remuneration (excluding pensions) and the payment of allowances for staff below Senior Civil Service grades.

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)

Directors	Salary £000		Performance pay £000		Pension benefits £000		Total £000	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Current Board members								
Chief Executive								
Gareth Llewellyn	130-135	130-135	15-20	15-20	52	51	195-200	195-200
Director								
Peter Hearn	90-95	85-90	10-15	-	29	165	130-135	250-255
Richard Hennessy (from 03/04/2017)	90-95	85-90 (90-95)	10-15	-	35	35 (35)	140-145	120-125 (125-130)
Adrian Long	100-105	100-105	0-5	10-15	40	40	140-145	150-155
Helen Milne	95-100	95-100	-	-	37	37	130-135	130-135
James Munson	120-125	120-125	-	10-15	47	47	165-170	180-185
Non-Executive Chair								
Bridget Rosewell	25-30	25-30	-	-	-	-	25-30	25-30
Non-Executive Director								
Ian Baulch-Jones (from 28/11/2017)	10-15	5-10 (10-15)	-	-	-	-	10-15	5-10 (10-15)
Shrinivas Honap	15-20	15-20	-	-	-	-	15-20	15-20
Fiona Ross	15-20	10-15	-	-	-	-	15-20	10-15
Previous Board members								
Non-Executive Director								
Geraldine Terry (to 11/06/17)	-	5-10 (25-30)	-	-	-	-	-	5-10 (25-30)

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.

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.

Performance pay

Performance pay is based on performance levels and is made as part of the appraisal process.

The performance pay reported in 2018-19 relates to performance in 2017-18 and the comparative performance pay reported for 2017-18 relates to the performance in 2016-17 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 2018-19 was £145,000 - £150,000 (2017-18: £145,000 - £150,000). This was 5.3 times (2017-18: 5.5 times) the median remuneration of the workforce, which was £27,683 (2017-18: £27,042).

In 2018-19, 4 (2017-18: 2) staff received remuneration in excess of the highest-paid director, all of whom were contractors. The remuneration banding for the highest paid employee was £205,000 - £210,000 (2017-18: £160,000 - £165,000). Contractors are appointed on a temporary basis to meet short-term business needs.

The median remuneration for 2018-19 is derived from the annualised remuneration of all staff as at 31 March 2019. Part time employees' payments are adjusted to a full time basis.

The ratio has fallen primarily because of an increase in the median remuneration of the workforce. This is due to implementation of a new local recognition award system in the year where payments are made on an ad hoc basis as opposed to annually. This means that awards relating to 2018-19 have been paid in year, and therefore included in the median pay calculation.

Pension benefits (audited)

Directors	Accrued pension at age 65 as at 31/3/19 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31/3/19 or date of departure £000	CETV at 31/3/18 or date of departure £000	Real increase in CETV £000
Chief Executive					
Gareth Llewellyn	5-10	2.5-5	124	74	30
Director					
Peter Hearn	40-45 plus 125-130 lump sum	0-2.5 plus 2.5-5 lump sum	920	805	27
Richard Hennessy (from 03/04/2017)	0-5	0-2.5	37	15	12
Adrian Long	15-20	0-2.5	244	189	26
Helen Milne	5-10	0-2.5	68	37	20
James Munson	10-15	2.5-5	131	86	23

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 2018-19 (2017-18: Nil). No compensation payments were paid (2017-18: £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 2016. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk/about-us/resource-accounts/).

For 2018-19, employers' contributions of £25,429,000 were payable to the PCSPS (2017-18: £24,470,000) at one of four rates in the range 20.0% to 24.5% (2017-18: 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 2018-19 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 £264,000 (2017-18: £335,000) 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%. Employers also match employee contributions up to 3.0% of pensionable pay. In addition, employer contributions of £8,000, 0.5% of pensionable pay (2017-18: £8,000, 0.5%), 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 (2017-18: £22,000).

15 persons (2017-18: 5 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2017-18: £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	2018-19			2017-18
	Permanently employed staff No.	Others No.	Total No.	Total No.
Directly employed				
Senior Civil Service	7	-	7	6
Grade 6	20	-	20	21
Grade 7	79	3	82	74
Senior Executive Officer	223	14	237	219
Higher Executive Officer	595	13	608	577
Executive Officer	2,536	8	2,544	2,544
Administration Officer	1,032	39	1,071	1,063
Administration Assistant	20	4	24	43
Total	**4,512**	**81**	**4,593**	**4,547**

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	
	2018-19 No.	2017-18 No.
<£10,000	5	24
£10,000 - £25,000	30	25
£25,000 - £50,000	18	14
£50,000 - £100,000	1	2
£100,000 - £150,000	-	1
Total Packages	**54**	**66**
Total Cost (£000)	**1,128**	**1,248**

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 2018-19 no payments were made which were not covered by the Civil Service Compensation Scheme (2017-18: £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 2019 No.
Number of existing engagements	21
Of which:	
Number that have existed for less than one year	13
Number that have existed for between one and two years	6
Number that have existed for between two and three years	2
Number that have existed for three and four years	-
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	2018-19 No.
Number of new engagements, or those that reached six months duration	9
Of which:	
Number assessed as within the scope of IR35	8
Number assessed as outside the scope of IR35	1
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	-
Number of engagements that saw a change to IR35 status following the consistency review.	-

Board members, and/or senior officials with significant financial responsibility during the financial year	2018-19 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 has 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 2019:

- three of the ten members of the DVSA Board were female
- 38 of 106 (36%) senior managers were female
- of the remaining workforce 29% 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-2018).

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 18% of respondents had experienced discrimination and 20% had experienced bullying or harassment in the last 12 months. These were both improvements on the 2017-18 scores. The agency introduced a training programme to build respect in the workplace. Over 4,500 members of DVSA have attended the training.

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 2018 annual civil service staff engagement survey scored the agency at 52%, an increase of 3 percentage points on the previous year. The return rate for the survey increased from 66% in 2017 to 79% in 2018.

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 86. The time spent on trade union facility activity is analysed in the table below.

Percentage of time	Number of employees
0%	17
1-50%	68
51%-99%	1
100%	0

One person spent over the 50% threshold of their time on trade union facility activity.

The cost to the agency of trade union facility time represents 0.09% of the pay bill of £176,705,000. 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 2018-19.

Regularity of income and expenditure

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

The main income streams are funded through statutory fees charging only what Parliament has authorised for the statutory services. Statutory instruments include The Driving Theory Test Fees Regulations 2014, The Motor Vehicle (Driving Licences) Regulations 1999, The Goods Vehicles (Plating and Testing) Regulations 1988 and The Motor Vehicle (Tests) Regulations 1981.

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 £384,406,000 (2017-18: £387,585,000) and a net surplus of £4,339,000 (2017-18: £13,820,000). Of the income, £362,037,000 (2017-18: £361,936,000) 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 continued the 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.

We propose to take a staged approach to rebalancing our fees, starting with driver services where fees have remained static for a decade, representing a reduction of up to 32% in real terms.

Losses and special payments

Losses and special payments totalled £535,000 during the year (2017-18: £769,000).

This total includes ex-gratia payments of £400,300 (2017-18: £327,400) in respect of 5,015 cases (2017-18: 4,161). 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, for example due to bad weather. The total 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 (2017-18: No cases) which need separate disclosure as required by Managing Public Money.

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. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified.

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
27 June 2019

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 & Vehicle Standards Agency for the year ended 31 March 2019 under the Government Trading Funds Act 1973. The financial statements comprise: the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in 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 & Vehicle Standards Agency affairs as at 31 March 2019 and of its profit 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 & 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.

Conclusions relating to going concern

I am required to 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 & Vehicle Standards Agency's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

Responsibilities of the Board and Chief Executive and Accounting Officer for the financial statements

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

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 & 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.
- 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.

I am required to obtain evidence sufficient to give reasonable assurance that 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.

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include 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 entity 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.

Gareth Davies **Date 5 July 2019**

Comptroller and Auditor General

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 2019

	Note	2018-19 £000	2017-18 £000
Income from operations			
Income from contracts with customers		361,831	363,844
Income from other operating activities		22,575	23,741
Total income from operations	2	**384,406**	**387,585**
Expenditure from operations			
Staff costs	3	(181,122)	(176,864)
Other operating charges	4	(164,682)	(162,235)
Depreciation, amortisation, impairment and profit/loss on asset disposal	6/7	(19,818)	(20,099)
Total expenditure from operations		**(365,622)**	**(359,198)**
Net operating surplus		**18,784**	**28,387**
Finance income		824	331
Finance costs	5	(7,089)	(7,358)
Net finance costs		**(6,265)**	**(7,027)**
Surplus for the year		**12,519**	**21,360**
Dividend payable	5	(8,180)	(7,540)
Retained surplus for the year		**4,339**	**13,820**
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	4,527	5,161
Total other comprehensive net income		**4,527**	**5,161**
Total comprehensive net income for the year		**8,866**	**18,981**

Accounting policies and notes forming part of the Accounts are on pages 41 to 60.

Statement of Financial Position
As at 31 March 2019

	Note	31 March 2019 £000	31 March 2018 £000
Non-current assets			
Property, plant and equipment	6	174,069	164,163
Intangible assets	7	82,750	70,197
Total non-current assets		**256,819**	**234,360**
Current assets			
Trade and other receivables	9	18,927	14,031
Assets held for sale	8	2,837	2,989
Cash and cash equivalents	15	138,844	152,466
Total current assets		**160,608**	**169,486**
Total assets		**417,427**	**403,846**
Current liabilities			
Trade and other payables	10	(107,688)	(101,319)
Provisions	11	(1,928)	(2,616)
Total current liabilities		**(109,616)**	**(103,935)**
Total assets less current liabilities		**307,811**	**299,911**
Non-current liabilities			
Provisions	11	(5,779)	(4,530)
Other payables	10	(65,540)	(67,755)
Total non-current liabilities		**(71,319)**	**(72,285)**
Net assets		**236,492**	**227,626**
Taxpayers' equity			
Public dividend capital	SoCTE	32,458	32,458
General fund	SoCTE	161,692	130,983
Revaluation reserve	SoCTE	42,342	64,185
Total taxpayers' equity		**236,492**	**227,626**

Accounting policies and notes forming part of the Accounts are on pages 41 to 60.

Chief Executive and Accounting Officer
27 June 2019

Statement of Cash Flows
For the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Cash flows from operating activities			
Net operating surplus	SoCNI	18,784	28,387
Adjustments for non-cash transactions	15	15,010	9,091
(Increase) / Decrease in trade and other receivables	9	(4,896)	4,172
Increase / (Decrease) in trade and other payables	10	7,627	(2,001)
(Use) of provisions and unwinding of discount	11	(2,582)	(2,238)
Net cash inflow from operating activities		**33,943**	**37,411**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(15,763)	(6,005)
Purchase of intangible assets	7	(23,352)	(13,100)
Proceeds of disposal of property, plant and equipment		1,229	1,955
Net cash (outflow) from investing activities		**(37,886)**	**(17,150)**
Cash flows from financing activities			
Interest received on cash balances	SoCNI	824	331
Interest payments made under finance leases	5/13	(6,259)	(6,018)
Repayment of loans from the Secretary of State	12	(4,244)	(3,628)
Interest payable on loan financing	5	-	(268)
Net financing		**(9,679)**	**(9,583)**
Net increase/ (decrease) in cash and cash equivalents	15	**(13,622)**	**10,678**
Cash and cash equivalents at the beginning of the year		**152,466**	**141,788**
Cash and cash equivalents at the end of the year		**138,844**	**152,466**

Accounting policies and notes forming part of the Accounts are on pages 41 to 60.

Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2019

	Note	General Fund	Revaluation Reserve	Public Dividend Capital	Total Taxpayers' Equity
		£000	**£000**	**£000**	**£000**
Balance as at 1 April 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**
Changes in 2018-19					
Retained surplus for the year	SoCNI	4,339	-	-	4,339
Revaluation gains and losses	SoCNI	-	4,527	-	4,527
Transfers between reserves	6	26,370	(26,370)	-	-
Total		30,709	(21,843)	-	8,866
Balance as at 31 March 2019		**161,692**	**42,342**	**32,458**	**236,492**

Accounting policies and notes forming part of the Accounts are on pages 41 to 60.

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 2018-19 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 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.

Two Standards are effective and have been adopted for the first time in 2018-19. IFRS 15 transition is described under point b ‘Income recognition’. The introduction of IFRS 9 has had no quantitative impact on DVSA’s financial statement due to the low complexity of its instruments, its lack of hedging activity and limited credit risk. Point m ‘Financial instruments’ summarises key policies under the new standard.

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 March 2019 and have not been applied in these Accounts. Forthcoming changes to IFRIC 23 and IFRS 17 are not deemed applicable to DVSA. The following new standard will affect the Accounts from the year ended 31 March 2021:

> IFRS 16 Leases provides a single lessee accounting model for all leases. Implementation across Government has been deferred by a year and it will now be effective from April 2020 as agreed by HM Treasury and specified in the FReM. Whilst DfT consolidated bodies adopt at the earlier date of April 2019, as DVSA is not consolidated it will adopt in line with the rest of Government.
>
> A “right of use” asset and corresponding lease liability will be created for each lease based on the net present value of future payments. The transitional approach mandated in the FReM is retrospective application with the cumulative effect recognised as an adjustment to opening taxpayers’ equity. This includes the elimination of any revaluation reserves associated with existing finance leases.
>
> Relevant practical expedients will be applied. This includes applying the standard to all contracts previously identified as leases under IAS 17, exemption for leases ending within 12 months of initial application and for those leases where the underlying asset is of low value.
>
> In applying IFRS 16, the current estimated increase in value of lease liabilities is £94.7m with an associated increase in the value of right of use assets. This relates to leases not currently included in the Statement of Financial Position as disclosed in Note 13, discounted at the incremental rate of borrowing. The initial deprecation on “right of use” assets is expected to be £10.1m annually and the interest payable on financing these leases is approximately £3.3m annually.

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 has adopted IFRS 15 Revenue from Contracts with Customers with the date of initial application of 1 April 2018. The transitional approach mandated in the FReM is retrospective application with the cumulative effect recognised as an adjustment to opening taxpayers' equity. No such adjustment is required as the existing income recognition policy is IFRS 15 compliant.

The public sector adaptation of this standard has been expanded to include revenue from fees and charges arising from legislation within the definition of a contract with customers. Income from fees and charges including statutory fees is now classified as income from contracts with customers. Income outside the scope of IFRS 15 is classified as income from other operating activities. Liabilities arising as a result of customers paying in advance of delivery of service are now reported as contract liabilities, previously reported as deferred income or fees in advance.

The amount by which each financial statement line item is affected in 2018-19 by the application of IFRS 15 as compared to IAS 11 and IAS 18 is included in Notes 2, 9 and 10.

Receipt of payment from a customer forms a contract with a performance obligation being placed on the agency. Income is recognised when this obligation is satisfied.

The following describes the income recognition approach for each service:

<table>
<tr><th>Products and services</th><th>Nature, timing of satisfaction of performance obligations and significant payment terms</th></tr>
<tr><td>Theory and practical driving tests</td><td>Theory and practical driving tests are booked and paid for in advance of the delivery of the services. DVSA recognises income at completion of the test.</td></tr>
<tr><td>Administering the MOT service</td><td>Authorised examiners purchase 'slots' for the capability to deliver an MOT test, issue a certificate and record the result. DVSA recognises income when the testing 'slots' are sold. Once sold, DVSA has no further obligation, whether slots are used or not.</td></tr>
<tr><td>First and annual testing of heavy goods vehicles and public service vehicles</td><td>Vehicle tests are booked and paid for in advance of the delivery of the services. DVSA recognises income at the time of the test.</td></tr>
<tr><td>Application for operator licences and the granting of licences</td><td rowspan="2">Income from applications for operator licences, granting of licences and registration of bus routes is recognised at the time of application and grant. For all licence fees, licence continuation fees and inclusion on registers, income is released over the period of the licence.</td></tr>
<tr><td>Registration of bus routes</td></tr>
<tr><td>Managing statutory and other registers</td><td>For all licence fees, licence continuation fees and inclusion on registers, income is released over the period of the licence.</td></tr>
</table>

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 comes under the DfT group VAT registration. Where allowable, VAT is recovered on expenditure in relation to its statutory activities in accordance with HM Treasury's Contracted Out Services Direction and in relation to business activities under the Value Added Tax Act 1994.

VAT is charged on taxable 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.

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 (Great Britain) but we provide an analysis of income and expenditure in note 2 for key activities to comply with Managing Public Money. An analysis of assets and liabilities by activity is not provided given these are not regularly reported internally.

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.

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 including cloud based software.

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.

Intangible assets are held at amortised cost as a proxy to depreciated/amortised replacement cost.

i) Depreciation and amortisation

Depreciation is charged on a straight line basis from the month that the asset is brought into 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 IFRS 9) 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 2019 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 valuation and asset lives
- 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, early departure schemes, contractual obligations and personal claims against the agency.

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 (known as a specific impairment), and by a general review of the estimated forecast costs versus estimated benefits of the asset (general impairment).

Other assets are considered for impairment if and when there is an indication that such a review is required. The requirements of IFRS 9 are applied in considering impairment of receivables.

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.

The agency's intangible assets are valued at historic cost net of amortisation and any impairments.

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 experience with similar assets as well as consideration of future events which may impact their life.

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 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

In the following table, financial performance is analysed by activity. The table also includes a disaggregation of revenue by each type of activity.

	2018-19					2017-18				
	Income					Income				
	Customer Contracts	Other	Total	Expenditure	Surplus/ (deficit)	Customer Contracts	Other	Total	Expenditure	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Driver services	200,275	1,643	**201,918**	218,000	**(16,082)**	204,147	2,438	**206,585**	211,357	**(4,772)**
Vehicle services	83,683	18,762	**102,445**	102,117	**328**	82,846	17,509	**100,355**	98,454	**1,901**
MOT service	63,084	76	**63,160**	36,168	**26,992**	61,768	293	**62,061**	35,832	**26,229**
Licensing services	12,671	45	**12,716**	20,216	**(7,500)**	12,969	178	**13,147**	20,952	**(7,805)**
Other services	2,118	2,049	**4,167**	3,566	**601**	2,114	3,323	**5,437**	7,170	**(1,733)**
Total	**361,831**	**22,575**	**384,406**	**380,067**	**4,339**	363,844	23,741	387,585	373,765	**13,820**

Previously DVSA reported income from statutory activities and income from other operating activities on the SoCNI. Under the previous reporting 2018-19 income from statutory activities would have been £373,001,000 (2017-18: £368,490,000) and income from other operating activities would have been £11,405,000 (2017-18: £19,095,000).

Driver services includes practical tests, theory tests and related standards, accreditation and compliance activities. Income from practical and theory tests has decreased from the previous year due to lower demand and one off income in 2017-18 from reducing car practical test waiting times. Ongoing expenditure has increased to support enhancing the estate and improving the information and communication technology.

Vehicle services include heavy vehicle testing and compliance activities. Income has increased due to higher volumes of statutory testing and grant funding from DfT to pay for the Market Surveillance Unit (MSU). Expenditure has increased due to additional staff costs to cover the increased volume and deliver the MSU activities.

Underlying performance of the MOT service has remained stable, with a small increase in income due to an increase in the volume of MOT tests. The surplus offsets unplanned deficits in other service areas at agency level and will be reinvested in enhancements to this service.

Licensing services' income is similar to last year. Expenditure has reduced due to efficiencies achieved through recruiting and training staff to support the digital operator licensing system.

Other services comprise publications and training activities, together with projects that are fully funded by DfT, including preparatory work in readiness for EU Exit. Expenditure has decreased following a reduction in grant funded activity.

Note 3 – Staff costs

		2018-19		**2017-18**
	Permanently employed staff	**Others**	**Total**	**Total**
	£000	**£000**	**£000**	**£000**
Wages and salaries	136,337	5,269	141,606	139,527
Social security costs	13,790	-	13,790	13,365
Pension costs	25,701	-	25,701	24,813
Staff costs incurred under restructuring	877	-	877	-
Total costs	**176,705**	**5,269**	**181,974**	**177,705**
Less recoveries in respect of outward secondments	(93)	-	(93)	(62)
Less capitalised costs	(551)	(208)	(759)	(779)
Total net staff costs	**176,061**	**5,061**	**181,122**	**176,864**

Other staff costs consist of contractors and temporary staff. In addition, £107,000 (2017-18: £65,000) was spent on consultancy.

Note 4 – Other operating charges

	2018-19	**2017-18**
	£000	**£000**
Information Technology – running costs	37,216	40,979
Outsourced theory test costs	30,772	31,210
Accommodation and equipment costs	28,804	29,583
Professional and contracted services	19,720	15,156
Rentals under operating leases	14,379	11,949
Travel and subsistence	12,128	10,772
Information Technology – support to development programmes	10,451	13,621
Staff related costs	5,118	4,346
Auditors' remuneration and expenses	98	116
Other	5,996	4,503
Total other operating charges	**164,682**	**162,235**

No non-audit services were provided by the auditor.

Note 5 – Finance costs

	2018-19	2017-18
	£000	£000
Interest charges on loans from the Secretary of State	-	268
Interest charges on finance leases	7,318	7,171
Unwinding discount on provisions	(229)	(81)
Total finance costs	**7,089**	**7,358**

Dividend payable	2018-19	2017-18
	£000	£000
Capital employed at the start of the period	230,961	215,213
Capital employed at the end of the period	236,492	230,961
Average capital employed	233,726	223,087
Target return on capital employed of 3.5%	8,180	7,808
Less interest payable on loans from DfT	-	(268)
Total dividend payable to DfT	**8,180**	**7,540**

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 2019 was 5.6%, 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.

Return on capital employed (ROCE)	Notes	2018-19	2017-18
		£000	£000
Surplus for the year	SoCNI	12,519	21,360
Adjustment for interest charges on loans from the Secretary of State	5	-	268
Adjustment for asset impairment and write-off	6	790	1,077
Adjustment for (profit)/ loss on asset disposal	6	(287)	(487)
Surplus on ordinary activities		13,022	22,218
Average capital employed		233,726	223,087
Return on capital employed		**5.6%**	**10.0%**

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

2018-2019	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 2018	36,508	143,796	11,778	7,874	6,941	4,838	211,735
Additions	-	3,071	3,575	547	1,419	5,760	14,372
Disposals	(60)	(293)	(913)	(2,905)	(542)	-	(4,713)
Reclassifications	(179)	673	437	1,161	763	(3,451)	(596)
Revaluations	31	5,667	87	216	185	-	6,186
At 31 March 2019	**36,300**	**152,914**	**14,964**	**6,893**	**8,766**	**7,147**	**226,984**
Depreciation							
At 1 April 2018	-	25,076	9,324	7,193	5,979	-	47,572
Charge for the year	-	6,127	2,173	655	489	-	9,444
Disposals	-	(69)	(907)	(2,905)	(542)	-	(4,423)
Reclassifications	-	(96)	-	-	-	-	(96)
Revaluations	-	-	69	192	157	-	418
At 31 March 2019	**-**	**31,038**	**10,659**	**5,135**	**6,083**	**-**	**52,915**
Carrying value							
At 1 April 2018	36,508	118,720	2,454	681	962	4,838	164,163
At 31 March 2019	**36,300**	**121,876**	**4,305**	**1,758**	**2,683**	**7,147**	**174,069**
Asset financing							
Owned assets	36,300	49,408	4,305	1,758	2,683	7,147	101,601
Enhancements to lease property	-	29,830	-	-	-	-	29,830
Finance leased assets	-	42,638	-	-	-	-	42,638
At 31 March 2019	**36,300**	**121,876**	**4,305**	**1,758**	**2,683**	**7,147**	**174,069**

Properties are valued in accordance with the policy outlined in Note 1(f). Of the total net book value of land and buildings, 58% relates to specialist assets which are held at depreciated replacement cost, 28% relates to non-specialist assets which are held at existing use value, and 14% relates to surplus assets, which are held at market value.

Finance leased assets comprise multi-purpose test centres procured under finance leases and capitalised expenditure for works on properties held under operating leases. The closing assets under construction balance primarily relates to transport equipment and IT equipment.

As a result of revaluations and impairments, assets (including assets held for sale) were revalued upwards by £5,768,000 (net) (2017-18: £4,560,000). Of this £1,241,000 was credited (2017-18: £601,000 (charge)) to the Statement of Comprehensive Net Income operating costs and £4,527,000 (2017-18: £5,161,000) was taken to other comprehensive net income.

The revaluation reserve has a closing balance of £42,342,000 (2017-18: £64,185,000) which reflects unrealised revaluation gains relating to property, plant and equipment (including plant, property and equipment held for sale.).

During the year revaluation gains of £26,370,000 were transferred to the general fund. This includes a transfer of £24,766,000 to the general fund which represents realisable gains on historic disposals not previously transferred.

The additions in 2018-19 includes £738,000 (2017-18: £2,129,000) in relation to accrued capital expenditure.

2017-18	**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)
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**

Analysis of depreciation, amortisation and impairment line in Statement of Comprehensive Net Income	**Notes**	**2018-19 £000**	**2017-18 £000**
Depreciation of property, plant and equipment	6	9,444	8,172
Amortisation of intangible assets	7	11,112	11,569
(Profit) / Loss on disposal of assets		(287)	(487)
Net impairment of non-current assets	6 & 7	790	1,077
Revaluation of property, plant and equipment not taken to the revaluation reserve		(1,241)	(232)
		19,818	**20,099**

Note 7 – Intangible assets

2018-19	IT Software	Assets Under Construction	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2018	128,303	8,836	137,139
Additions	13,862	10,593	24,455
Disposals	(7,003)	-	(7,003)
Impairments	-	(790)	(790)
Reclassifications	5,198	(5,198)	-
At 31 March 2019	**140,360**	**13,441**	**153,801**
Amortisation			
At 1 April 2018	66,942	-	66,942
Charge for the year	11,112	-	11,112
Disposals	(7,003)	-	(7,003)
At 31 March 2019	**71,051**	**-**	**71,051**
Carrying value			
At 1 April 2018	61,361	8,836	70,197
At 31 March 2019	**69,309**	**13,441**	**82,750**

All intangible assets are owned. The closing assets under construction balance primarily relates to investment in software development.

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 2018-19 includes £4,203,000 (2017-18: £3,100,000) in relation to accrued capital expenditure.

Analysis of IT Software:	Remaining Life At 31 March 2019 £000	Net Book Value At 31 March 2019 £000
MOT system	6 years	50,972
Vehicle Operator Licensing System	7 years	8,107
Other in use systems	Up to 10 years	10,230
Other – assets under construction	n/a	13,441
Total		**82,750**

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)
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**

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**

Note 8 – Assets held for sale

	2018-19	2017-18
	£000	£000
At 1 April 2018	2,989	2,256
Disposals of assets	(652)	(1,243)
Transferred in year as assets held for resale	500	1,976
At 31 March 2019	**2,837**	**2,989**

Sale of assets resulted in cash receipts of £1,229,000 (2017-18: £1,955,000).

Note 9 – Trade and other receivables

Amounts falling due within one year	31 March 2019 £000	31 March 2018 £000
Trade receivables	1,989	818
Interest receivable	73	12
Recoverable VAT	5,142	5,654
Prepayments and accrued income	10,083	5,893
Other receivables	1,640	1,654
Total	**18,927**	**14,031**

Trade and other receivables includes £3,272,000 (2017-18: £3,203,000) of receivables relating to contracts with customers.

Other receivables includes £1,120,000 (2017-18: £1,307,000) which is due after more than one year.

The increase in trade and other receivables during the year is £4,896,000 (2017-18: £4,172,000 decrease).

Note 10 – Trade and other payables

Amounts falling due within one year	31 March 2019 £000	31 March 2018 £000
Trade payables	118	641
Other payables	6,954	6,383
Accruals	42,692	38,909
Contract liabilities	43,950	44,602
Deferred income - grant funding from DfT	7,533	3,616
Current part of finance leases	6,441	6,259
Current instalment on Secretary of State loans (see note 12)	-	909
Total	**107,688**	**101,319**

Amounts falling due after more than one year	31 March 2019 £000	31 March 2018 £000
Other payables	368	253
Contract liabilities	14,022	13,894
Finance leases	51,150	50,273
Future instalments on Secretary of State loans (see note 12)	-	3,335
Total	**65,540**	**67,755**

Contract liabilities primarily relates to the advance consideration received from customers.

The contract liabilities due within one year would previously have been disclosed as fees in advance of £10,333,000 (2017-18: £10,008,000) and deferred income of £33,617,000 (2017-18: £34,594,000). Contract liabilities due after more than one year were previously disclosed as deferred income.

Contract Liabilities	**£000**
At 1 April 2018	58,496
Revenue recognised that was included in the contract liability balance at the beginning of the period	44,602
Increases due to cash received, excluding amounts recognised as revenue during the period	(45,126)
At 31 March 2019	**57,972**

The increase in trade and other payables during the year is £7,627,000 (2017-18: £2,001,000 decrease). This consists of an increase in amounts falling due within one year (excluding current part of finance leases and current instalment on Secretary of State loans) of £7,096,000 and an increase in contract liabilities and other payables greater than one year of £243,000 plus the movement in capital accruals (property, plant and equipment and intangibles) of £288,000.

Note 11 – Provisions

2018-19	**Early Departure**	**Lease Obligations**	**Dilapidat-ions**	**Legal & other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
At 1 April 2018	1,518	3,666	756	1,206	7,146
Provided in the year	1,059	368	2,369	511	4,307
Provisions not required written back	(134)	(637)	(300)	(93)	(1,164)
Provision utilised in year	(1,452)	(295)	(528)	(78)	(2,353)
Borrowing costs (unwinding of discount)	-	(154)	-	(75)	(229)
At 31 March 2019	**991**	**2,948**	**2,297**	**1,471**	**7,707**
– Not later than one year	983	292	97	556	1,928
– Later than one year and not later than five years	8	1,206	2,200	287	3,701
– Later than five years	-	1,450	-	628	2,078
Total greater than one year	8	2,656	2,200	915	5,779
At 31 March 2019	**991**	**2,948**	**2,297**	**1,471**	**7,707**

2017-18	**Early Departure**	**Lease Obligations**	**Dilapidat-ions**	**Legal & other**	**Total**
	£000	**£000**	**£000**	**£000**	**£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**

Use of provision and unwinding of discount during the year is £2,582,000 (2017-18: £2,238,000).

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.

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. These were fully repaid during the year.

	31March 2019 £000	31 March 2018 £000
Loan issued in 2007-08 15 year repayment at 4.54% interest	-	3,812
Loan issued in 2009-10 10 year repayment at 3.0% interest	-	432
Total Loans	**-**	**4,244**

	31 March 2019 £000	31 March 2018 £000
Amounts repayable:		
– Current loan instalment (see note 10)	-	909
– In one to two years	-	909
– In two to five years	-	2,080
– After five years	-	346
Amounts due after more than one year (see note 10)	-	3,335
Total Loans	**-**	**4,244**

Loan repayments made in the year were £4,244,000 (2017-18: £3,628,000).

Note 13 – Commitments under leases

Operating leases	31 March 2019			31 March 2018		
	Land and Buildings	Other	Total	Land and Buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Minimum lease payments						
- Not later than one year	8,851	2,898	**11,749**	8,042	1,838	**9,880**
- Later than one year and not later than five years	26,048	3,504	**29,552**	23,140	1,823	**24,963**
- Later than five years	112,747	-	**112,747**	103,720	-	**103,720**
Total	**147,646**	**6,402**	**154,048**	**134,902**	**3,661**	**138,563**

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.

Payments under finance leases	Buildings 31 March 2019	31 March 2018
	£000	£000
Minimum lease payments:		
- Not later than one year	6,441	6,259
- Later than one year and not later than five years	27,017	26,397
- Later than five years	238,478	245,539
Total payment obligations under finance leases	271,936	278,195
- Less interest element	(214,345)	(221,663)
Present value of obligations under finance leases	**57,591**	**56,532**
Present value of lease payment:		
- Not later than one year	6,441	6,259
- Later than one year and not later than five years	18,141	17,750
- Later than five years	33,009	32,523
Total present value of obligations under finance leases	**57,591**	**56,532**

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 the buildings will have minimal residual value.

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 2019 £000	31 March 2018 £000
Contracted:		
Property, plant and equipment	1,388	1,222
Intangible assets	1,801	2,034
Total capital commitments	**3,189**	**3,256**

Note 15 – Cash and cash equivalents

	31 March 2019 £000	31 March 2018 £000
Balance at 1 April	152,466	141,788
Net change in cash and cash equivalent balances	(13,622)	10,678
Balance at 31 March	**138,844**	**152,466**

The following balances at 31 March were held at		
– Government Banking Services	137,644	152,403
– Commercial banks and cash in hand	1,200	63
Balance at 31 March	**138,844**	**152,466**

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

Adjustments for non-cash transactions	Note	2018-19 £000	2017-18 £000
Depreciation, amortisation, impairment and profit/loss on asset disposal	6/7	19,818	20,099
Provision provided in year and written back, less unwinding discount	11	3,372	(3,468)
Dividend accrual	5	(8,180)	(7,540)
		15,010	9,091

Note 16 – Financial risk management

Fair values – The carrying values of financial assets and liabilities at 31 March 2019 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 customers or counterparties fail to fulfil their contractual obligations. Some 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, policies and procedures are in place to ensure that credit risk is kept to a minimum. The majority of customers pay in advance of a service being supplied.

The carrying amount of the financial assets £157,771,000 (31 March 2018: £166,497,000) represents the maximum credit exposure.

Liquidity Risk – Liquidity risk is managed through holding sufficient funds to meet current financial liabilities. Future financial liabilities will be funded from cash inflow from future operating activities.

Exposure to liquidity risk is minimal as it is expected that further borrowing requirements, should they arise, would be met by loans from the Department for Transport.

Interest Rate Risk –There is no interest rate risk as the agency has no interest-bearing loans. Loans were repaid in 2018-19.

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 (2017-18: 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 (2017-18: none).

Note 19 – Events after the reporting period

There have been no events since the 31 March 2019 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

Fixed penalties provide an efficient, proportionate and direct way of dealing with a wide range of road traffic offences. DVSA collects fixed penalty fines on behalf of HM Treasury.

In England and Wales section 54 of the Road Traffic Offenders Act 1988, as amended, empowers an examiner who has reason to believe that a person is committing, or has on that occasion committed, a fixed penalty offence (subject to some restrictions) to issue a fixed penalty notice in respect of the offence. This legal authority enables DVSA to issue fixed penalties to non-UK resident and UK resident offenders, regardless of whether the offence is endorsable (i.e. if penalty points are to be endorsed on the driving licence/driving record); and request a financial penalty deposit from any offender who does not have a satisfactory address where they can be found in the UK. Such deposit payments may be either 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.

DVSA also collects bus penalties ordered by a Traffic Commissioner against an operator of local bus services as a sanction under Section 155 of the Transport Act 2000. A Traffic Commissioner can impose a sanction if he/ she determines that an operator of local bus services has failed to run the service or has done so not in accordance with the registered particulars or in contravention of a Quality Partnership Scheme.

Penalties primarily relate to driver's hours offences, mechanical defects, overloading of vehicles and infringements relating to payment of the HGV road user levy. Commentary explaining the increase in net revenue for the consolidated fund is included in the Performance Report.

In all cases DVSA collected these payments on behalf of HM Treasury and receipts collected were paid to HM Treasury at regular intervals.

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 2019 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.

Cash collections	**2018-19 £000**	**2017-18 £000**
Revenue for offences in:		
Fixed penalties	6,644	3,861
Bus penalties	-	1
Net revenue for the Consolidated Fund	**6,644**	**3,862**

Balance held on behalf of HM Treasury	**31 March 2019 £000**	**31 March 2018 £000**
Current Assets:		
Debtors	12	13
Cash and cash equivalents held in trust	1,721	1,309
Total Assets	**1,733**	**1,322**
Current liabilities:		
Court deposits	(93)	(73)
Refunds due	(15)	-
Unallocated receipts	(62)	-
Total Liabilities	**(170)**	**(73)**
Balance due to Consolidated Fund	**1,563**	**1,249**

Cash balance movement	**2018-19 £000**	**2017-18 £000**
Net revenue for the Consolidated Fund	6,644	3,862
(Increase)/ Decrease in debtors	1	6
Increase/ (Decrease) in liabilities	97	14
Cash paid to the Consolidated Fund	(6,330)	(3,271)
Net increase/(decrease) in cash and cash equivalents	**412**	**611**
Cash and cash equivalents at the beginning of the year	1,309	698
Cash and cash equivalents at the end of the year	**1,721**	**1,309**

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 report below 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 2018-19. 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.

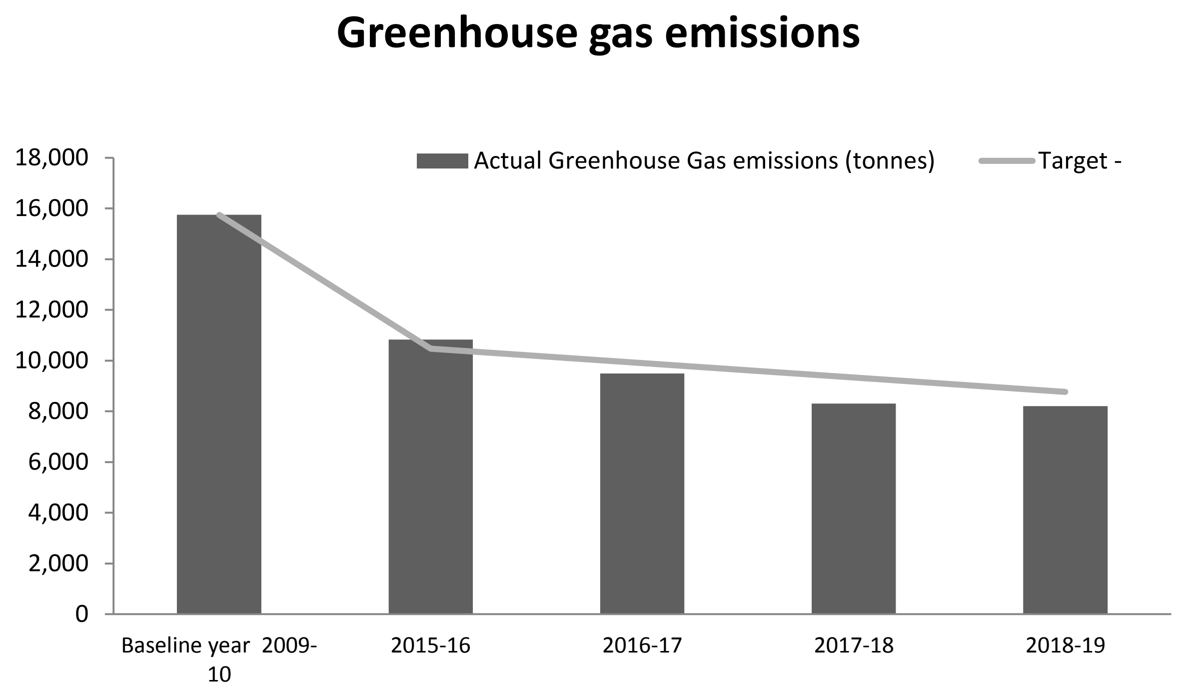
Performance against the Greening Government Commitments

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 CO2 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 CO2e)	**Baseline year (2009-10)**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Annual Target	15,748	10,473	9,906	9,339	8,302
Actual emissions:					
Scope 1: Direct emissions	4,323	3,915	3,524	2,164	2,068
Scope 2: Indirect emissions from purchased electricity	7,064	4,112	3,548	3,619	3,302
Scope 3: Other indirect emissions (including business travel in vehicles not owned by DVSA)	4,361	2,809	2,417	2,519	2,830
Total emissions	**15,748**	**10,836**	**9,489**	**8,302**	**8,200**
Total emissions per FTE	3.2	2.5	2.1	1.8	1.3



The agency's performance in reducing greenhouse gas emissions already exceeds the 2020-21 target. Both the graph above, and table below, show how the agency's efficiency measures, by reducing the size of its estate, have resulted in a downward trend in energy use with expenditure per FTE. The reduction in energy consumption across the estate has been partially offset by increased consumption from business travel. This is due to the introduction of new, more efficient ways of working which require a more mobile workforce. We have implemented flexible working technology, tablets and laptops using Office365 tools (e.g. teleconferencing via Skype) to support this, and provide opportunities for reducing travel in future.

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)**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Electricity consumption (GWh)	13.3	8.2	7.9	8	7.1
Gas Consumption (GWh)	11.5	8.6	8.7	8.6	7.1
Oil and LPG consumption (GWh)	1.6	0.8	1	0.6	0.1
Energy use per FTE (kWh)	5,343	4,023	3,955	3,761	3,113
Total energy expenditure (£m)	2.3	1.7	1.6	1.6	1.8
Energy expenditure per FTE (£)	474	381	361	337	377

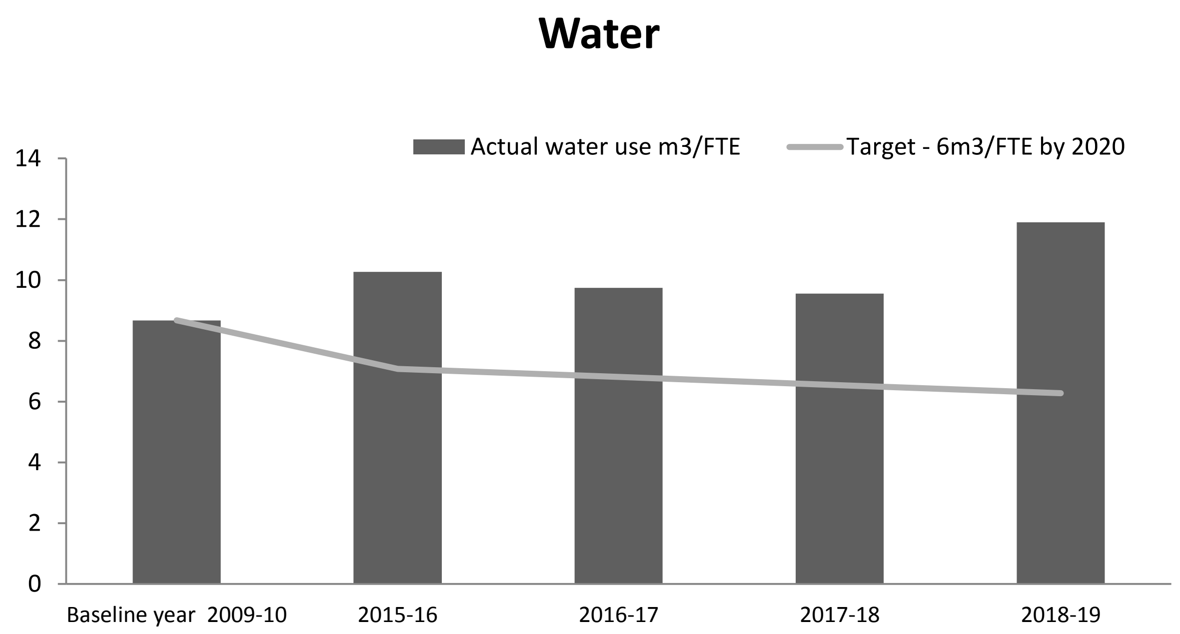
Business travel	Baseline year (2009-10)	2015-16	2016-17	2017-18	2018-19
Domestic air travel (number of flights)	2,742	1,339	1,589	450	356
Business travel (all modes – millions of km)	31	29.8	27.5	24.4	28.5
Business travel per FTE (km)	6,287	6,773	6,175	5,366	6,205

The table above shows how we continue to reduce the number of domestic flights made, but also, with an increasingly mobile workforce, we are managing to keep business travel (millions of km) below the baseline.

Water use

DVSA’s target is to reduce water use to 6m3/FTE (including staff and visitors) by 2020. Performance towards this target is set out in the following table:

Water use (m3/FTE)	Baseline year (2009-10)	2015-16	2016-17	2017-18	2018-19
Annual Target	8.7	7.1	6.8	6.5	6.3
Actual	8.7	10.3	9.7	9.6	11.9



We have not managed to substantially reduce our water consumption, but during 2019-20 will continue to focus on better measurement and analysis, leak detection and timely resolution at sites that exceed the benchmark consumption. These measures, in conjunction with site refurbishments and other water management initiatives, should result in better figures next year.

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

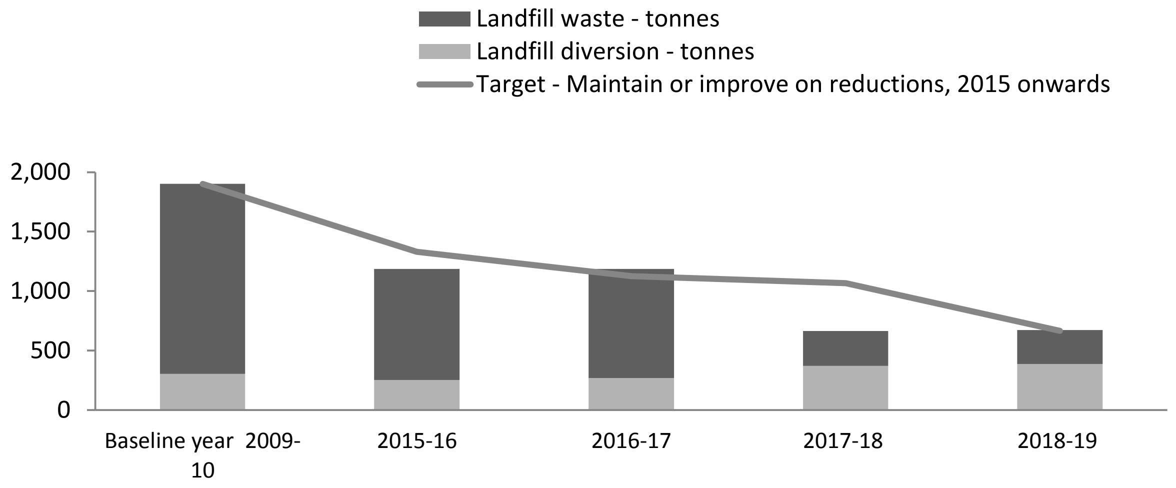
Water	**Baseline year (2009-10)**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Water Consumption m3	61,502	72,867	69,118	67,799	71,347
Total Water Expenditure £000s	340	363	449	554	599
Water expenditure per FTE (£)	67	83	101	117	130

Waste

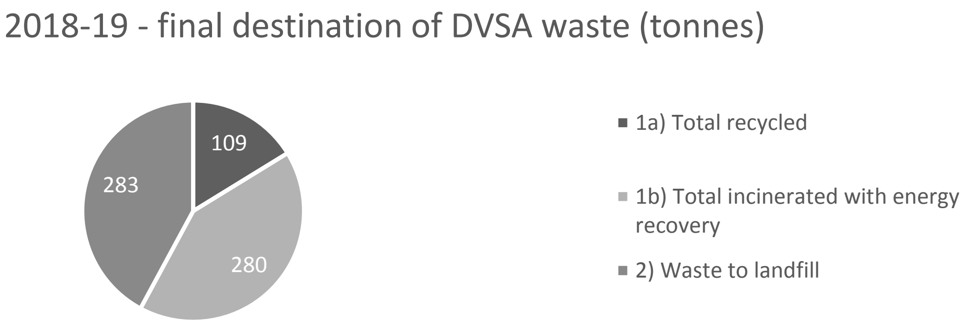
DVSA's target is to reduce the amount of waste going to landfill to less than 10% by 2020, equivalent to less than 190 tonnes. Performance against the target is set out in the following table:

Waste (tonnes)	**Baseline year (2009-10)**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Annual Target	1,902	1,331	1,125	1,066	666
Actual	1,902	1,187	1,186	666	686
Of which:					
1) Landfill diversion	303	254	269	373	389
1a) Total recycled				*93*	*109*
1b) Total incinerated with energy recovery				*280*	*280*
2) Waste to landfill	1,599	933	917	293	283

Waste



The findings of an estate-wide waste audit, completed in May 2017, shows DVSA has made a significant change to waste and the improvement of landfill diversion rates. 42% (283 tonnes) of waste is now sent to landfill, compared to 85% in the baseline year. This is a significant step towards the GGC target of 10% waste to landfill.



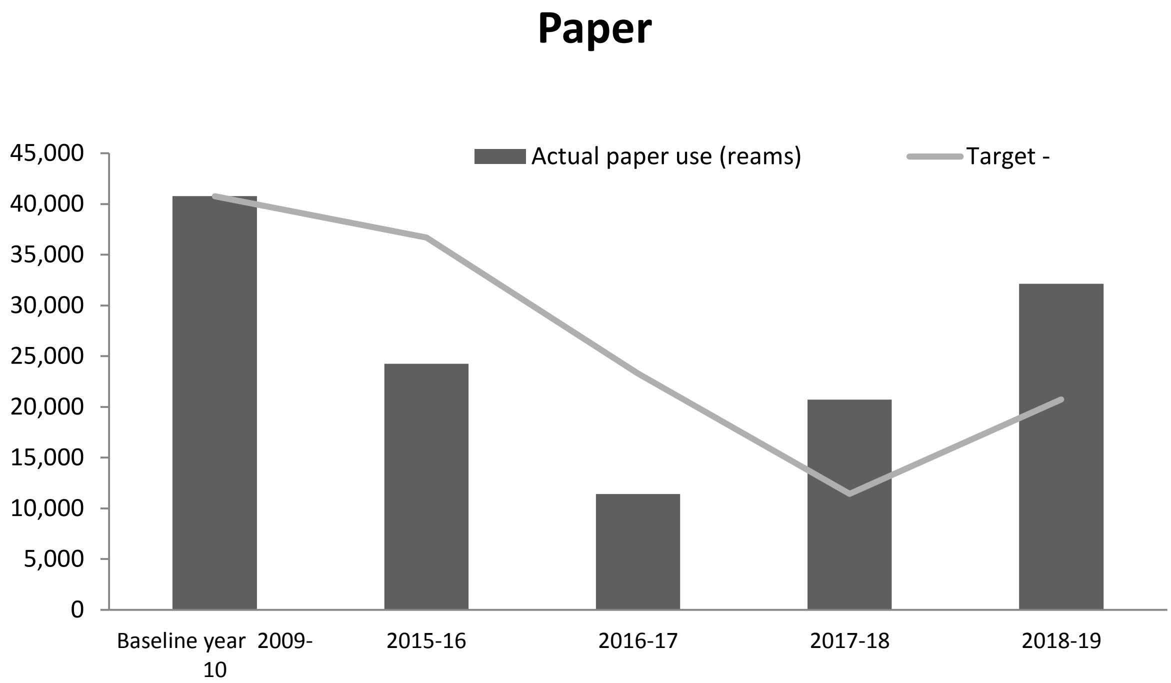
Further information about the agency's expenditure on waste is set out in the following table. Data from 2009-10 to 2014-15 is based on the data for the former Vehicle and Operator Services Agency only, prior to the creation of DVSA. Data from the former Driving Standards Agency is not available.

Waste	**Baseline year (2009-10)**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Expenditure on waste - £000s	98	239	215	205	279
Expenditure per FTE (staff only) - £	35	83	48	44	58

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)**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Annual Target	40,772	36,695	23,286	11,411	20,727
Actual	40,772	24,252	11,411	20,727	32,145



Paper use has significantly increased in 2018-19 compared to years 2017-18.

Buying 'greener' products and services

DVSA aims to meet its business needs in a more sustainable way that achieves value for money, whilst addressing impact on staff, community and environment.

In 2018-19, we started to embed the Sustainable Development Impact Assessment in to all Change, Projects and Procurement initiatives. This will enable us to identify key potential sustainability impacts and opportunities associated with new and business-as-usual activities. We started to include sustainability-driven options into business cases, but anticipate that during 2019-20 this will become a business-as-usual process.

Glossary

ADI	Approved Driving Instructor
ANPR	Automatic Number Plate Recognition
ATF	Authorised Testing Facility
CCA	Customer Contact Association
CETV	Cash Equivalent Transfer Value
CIPS	Chartered Institute of Procurement and Supply
CPC	Certificate of Professional Competence
DfT	Department for Transport
DVLA	Driver and Vehicle Licensing Agency
DVSA	Driver and Vehicle Standards Agency
EU	European Union
FReM	Financial Reporting Manual
FTE	Full Time Equivalent
FYE	Full Year Equivalent
GDPR	General Data Protection Regulation
GGC	Greening Government Commitments
GIAA	Government Internal Audit Agency
HGV	Heavy Goods Vehicle
HMRC	Her Majesty's Revenue & Customs
HR	Human Resources
IAS	International Accounting Standard
ICO	Information Commissioner's Office
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
LGV	Large Goods Vehicle
MOT	Annual statutory test for private vehicles
MSU	Market Surveillance Unit
NAO	National Audit Office
NAS	National ANPR Service
PCSPS	Principal Civil Service Pension Scheme
PSV	Public Service Vehicle
ROCE	Return On Capital Employed
SCS	Senior Civil Servant
SIRO	Senior Information Risk Owner
SoCNI	Statement of Comprehensive Net Income
SoCTE	Statement of Comprehensive Taxpayers' Equity
SR15	Comprehensive Spending Review 2015
VAT	Value Added Tax
VIN	Vehicle Identification Number

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