VOSA

Vehicle & Operator Services Agency


Annual Report 2006/2007

Vehicle and Operator Services Agency

Annual Report and Accounts 2006/07

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Highlights of 2006/07

- Increased effective targeting of serious offences by **23%**
- **29%** increase in checks on the non-compliant in the South East

- Distribution of Fresnel panoramic lenses in the South East reduced dangerous side-swiping incidents by almost **60%**
- A further three testing stations refurbished and total investment in estates of **£15m**

- **MOT Computerisation short-listed** for the Government Computing Awards for Innovation 2007
- Increase in MOT customer satisfaction to **94%**

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Annual Report

Chief Executive's Statement

"2006/07 has been a busy and challenging year."

We ran a highly successful enforcement pilot in partnership with the Highways Agency, targeting "at risk" vehicles on international journeys in the South East. This almost trebled the number of such vehicles and drivers taken off UK roads. Almost half of the 19,462 roadworthiness checks carried out received prohibitions. We also carried out research on the causes of side-swiping incidents with left-hand drive vehicles. This resulted in 40,000 Fresnel lenses distributed. Related incidents have reduced by almost 60%. Overall, we have increased our targeting effectiveness by 23%.

We achieved an increase in test station utilisation from 74% to 84% during the year as well as an 18% improvement in staff productivity, with customers subsequently benefiting from reduced waiting times. We missed our HGV Forward Booking Time service standard (95% of appointments on or within 15 days of request) in 9 HGV test stations, although the average overall performance was 98.4%. Our new electronic test booking system is now being used by staff in all our test stations.

March saw the 50 millionth test recorded on the MOT Computer system, which has enabled over 7 million motorists to re-license their vehicles on-line. The system was short-listed for the Government Computing Awards for Innovation 2007.

Another milestone was the centralisation of our licensing operations to Leeds. We had considerable challenges with a variation in approach amongst the Traffic Commissioners. These were resolved with the assistance and support of the current Traffic Commissioners. The initiative has enabled significant efficiencies in our operations, a better service to operators and more consistent service to Commissioners.

Our capital investment programme totalled £28m. This included an allocation of £15m in our testing station estate, and £13m in modernising our equipment and IT. We also invested £1.5m in training our staff. We have reduced our headcount above target in non-operational posts. We are now in a good position to re-invest the savings to increase our front-line enforcement staff over the coming year.

We have been working on a feasibility study to assess the potential benefits of further private sector involvement in delivering our services and improving road safety. We have worked in close consultation with the Department for Transport, the trade, Trade Unions, and other interested parties. A preliminary business case is due to be presented to the Department this coming Autumn.

To conclude, VOSA is going through a period of unprecedented change. None of the above would have been possible without the commitment of our staff, upon whom the burden of change has fallen. Whilst the investment and increased efficiency we have achieved over the year provide the platform for the future, it is this commitment which underpins our success.

Stephen Tetlow, Chief Executive

Introduction

About the Vehicle and Operator Services Agency (VOSA)

VOSA forms part of the Driver, Vehicle and Operator Group (DVO). From 1 April 2007, the DVO Group has become part of the Safety, Service Delivery and Logistics (SSDL) Group within the Department for Transport. We serve: the Department for Transport as owner of the Agency; Traffic Commissioners; trade associations; vehicle owners and operators; MOT garages; vehicle manufacturers; importers and kit car builders; the media; the general public; members of other organisations interested in the Agency's work; VOSA staff and VOSA trade unions.

VOSA's activities contribute to Government goals supported by the DVO Group's seven strategic outcomes. We contribute to six of these outcomes as follows:

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

Page headings through the 3 chapters indicate which outcomes our activities primarily relate to.

About this report

This Annual Report is the principal means for formally reporting to Ministers and Parliament on VOSA's performance and its statutory financial statements. It covers 1 April 2006 until 31 March 2007 and reports on the activities laid out in the 2006/07 Business Plan.

There are 3 main sections on our activities, mirroring the structure of our 2006/07 Business Plan:

- **Driving up the standard of commercial vehicles**
- **Driving up the standard of private vehicles**
- **Developing our organisation to improve delivery.**

The report has five further sections:

- **A narrative report on performance for the year relative to our 2006/07 Business Plan, including our performance against Secretary of State Targets**
- **Directors' Report**
- **Management Commentary including a Forward View**
- **Remuneration Report**
- **Annual Accounts.**

Performance against Secretary of State Targets

Our performance is reflected within our Secretary of State Targets. These are agreed with the Minister and are the primary measure of our performance, monitored throughout the year.

We achieved 5 of our 6 Key Targets as shown in summary below. ***Details of our performance against the Targets and measures can be found throughout the rest of this section of the report in the same format as this text.***

Key Targets: Better Customer Services	Result

• To maintain or improve customer satisfaction at 2005/06 levels (see page 14 and 18)
  • Operators - satisfaction score ≥80% (see page 14)
  • Drivers, Fitters & Presenters - satisfaction score ≥93% (see page 14)
  • MOT Customers - satisfaction score ≥92% (see page 18)
	Achieved

• To improve the consistency of VOSA's vehicle testing service across the country (see page 12) • By 31 March 2007 reduce the variation in initial test fail rates by one third from the 2005/06 national average for Heavy Goods Vehicles, Trailers and Public Service Vehicles whilst maintaining quality test standards (see page 12)	Not Achieved

Key Targets: Better Regulation	Result

• To contribute to improved road safety by reducing the administrative burden of commercial operation and increasingly targeting enforcement on non-compliant vehicles and drivers (see page 7)
  • Agreed plan for licensing reform implemented within 12 months of the decision to proceed (see page 11)
  • On track to implement operational Graduated Fixed Penalties and Deposits system within 12 months of receiving Royal Assent (see page 8)
  • Improved targeting of enforcement action at the roadside (see page 7)
    • Reducing the percentage of vehicles detained at the roadside that have not contravened driver and vehicle regulations from a 2004/05 baseline of 77.1% to below 70% in 2006/07 (see page 7)
    • Increasing effective targeting of serious offences, measured by the average of quality prohibition points per roadside check from a 2004/05 baseline of 15.2 to above 18 in 2006/07 (see page 7)
	Achieved

Key Targets: Improved Journey Time Reliabilty	Result
• To contribute to making journeys more reliable on the strategic road network, improving road safety and minimising congestion, by working in partnership with the Highways Agency and targeting "at risk" vehicles (see page 10) • To identify* and take action** on goods vehicles "at risk", initially through a pilot scheme in the South East of England (see page 10) * Identified through Highways and VOSA research ** Targeted operations will cover a range of activity both preventative and punitive	Achieved

Key Targets: Value for Money	Result

• To deliver VOSA's Value for Money Plan (see page 23)
  • Delivered efficiency and effectiveness savings in 2006/07 equivalent to 5% (£7m) in year (see page 23)
• To increase the take-up of electronic services available to customers (see page 24)
  • By 31 March 2007 to have increased monthly take-up of existing and newly delivered electronic services to 30% (see page 24)
	Achieved

Driving up the standard of commercial vehicles

HGV Industry

- Around 371,500 licensed HGVs
- 1.75 billion tonnes of goods lifted in 2005
- Average fleet size is 3.7 vehicles
- 29 billion vehicle kilometres travelled in 2005

PSV Industry

- Around 90,000 licensed PSVs
- Nearly 2,500 operators have only one vehicle
- Over 23,000 registered bus services
- 5.2 billion vehicle kilometres travelled in 2005

Increasingly targeted enforcement

Targeting non-compliant operators and drivers continues to be a major part of our enforcement activity. In particular, this year the bringing together of specialist technology, systems and information enabled a more intelligent approach to our targeting.

Key Target:

To contribute to improved road safety by reducing the administrative burden of commercial operation and increasingly targeting enforcement on non-compliant vehicles and drivers

Key Measure:

Increasing effective targeting of serious offences, measured by the average of quality prohibition points per roadside check from a 2004/05 baseline of 15.2 to above 18 in 2006/07

The percentage of compliant vehicles subjected to spot check inspections was reduced to 67.3% and the average of quality prohibition points* per roadside check increased to 22, thus exceeding the above target.

Key Measure:

Reducing the percentage of vehicles detained at the roadside that have not contravened driver and vehicle regulations from a 2004/05 baseline of 77.1% to below 70% in 2006/07

One of the projects that enabled a more targeted approach to enforcement is Project WASP (Weight and Safety Partnership) which has been awarded a 'highly commended' marking at the annual Gus O'Donnell Civil Service Awards. The project was a partnership between VOSA, the Highways Agency and the Central Motorway Police Group and used ANPR/WIMS technology to identify overloaded vehicles in advance of the spot check site, thus dramatically cutting the need to stop and inconvenience law-abiding drivers.

The success comes on the back of VIPER (Vehicle Identification and Pre-selection Enforcement Resource), technology developed by Civica and VOSA and used by Project WASP, winning the ITS United Kingdom Technology Award for Excellence in October 2006.

* Points are awarded on the assessed impact on road safety of the offences or defects detected. For example, a prohibition issued to a vehicle with defects in safety critical components, such as steering/brakes/tyres, that pose an immediate and serious threat to road safety would accrue 100 points.

During the past year, a programme of interrelated initiatives was developed to enable more immediate and effective targeting. These included the Targeting Framework - a process for managing intelligence based on the police National Intelligence Model, 7 Regional Intelligence Units and the Strategic Analysis Unit.

We also started to see the benefits of the Operator Compliance Risk Score (OCRS) which is an important tool in allocating intelligence and targeting resources. Prohibition rates for HGVs for April 2007, when compared to April 2006, show considerable improvements as a result of risk-based targeting of enforcement, and initial figures on the percentage of operators prohibited are encouraging.

Prohibition rates for April 2006 (without OCRS) vs April 2007 (with OCRS)

UK HGV:	Apr 2006	Apr 2007	Difference
Roadworthiness	20.0%	31.2%	+11.2%
Drivers' Hours	7.9%	10.8%	+2.9%
Overloading	14.3%	24.6%	+10.2%

We also carried out a significant amount of "softer" preventative enforcement activity such as education and advice, and operators' visits.

Further tools for enforcing safer driving

The Road Safety Bill, containing powers to introduce Graduated Fixed Penalties and Deposits (GFPD) received Royal Assent in November 2006. We have been working with DfT in producing the consultation on the regulations required. This includes a Bands and Penalties document outlining the fixed penalty offences and related sanctions. The relevant software for the hand-held enforcement device has been produced and tested and we have been developing processes for the practical implementation of the new system. We have also been scoping and testing immobilisation devices to be used on prohibited vehicles deemed to be at risk of absconding.

Key Measure:

On track to implement operational Graduated Fixed Penalties and Deposits system within 12 months of receiving Royal Assent

We were in a position to implement the GFPD system in June/July 2007, hence achieving our key measure. However, a delay in consultation on secondary legislation, and a subsequent revised legislative timetable has since entailed a review of our plans. For example, we will reschedule staff training to take place nearer to the revised planned date of implementation - now expected in Summer 2008.

Further new legislation came into force in April 2007 on revised drivers' hours, governing driving and rest times for drivers of lorries, buses and coaches. It aims to combat driver fatigue, improve working conditions and promote a level playing field amongst operators across Europe. During the year, we publicised the relevant information to operators and drivers through a series of commercial seminars and an explanatory wall chart, distributed through our 'Moving On' publication and through press releases. We received a very positive response from the industry and have provided a further 46,000 copies for Truck and Driver magazine and 6,000 for Route One magazine, as requested by the trade press.

In addition, the introduction of legislation to ensure that digital tachographs are fitted to new vehicles came into force on 1 May 2006.

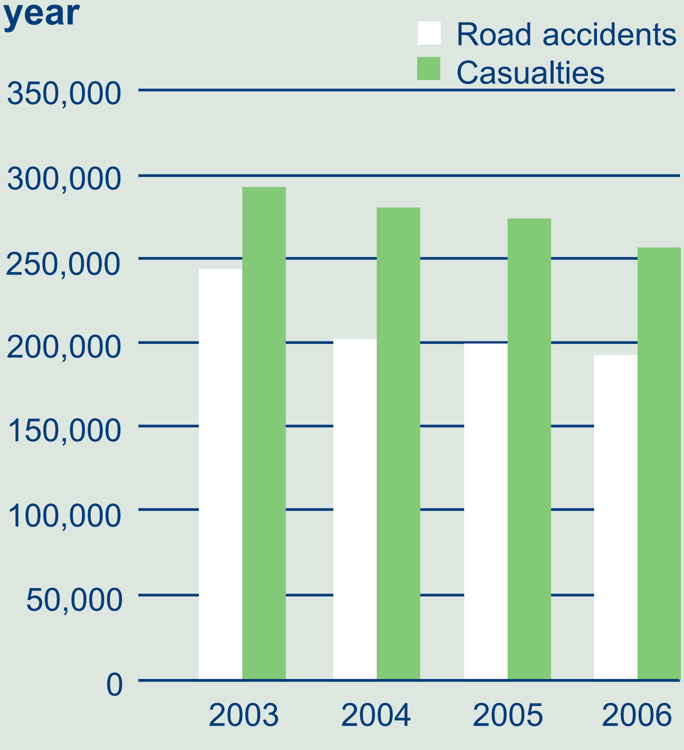
VOSA, along with colleagues from the DfT, represent the UK in Euro-Contrôle-Route, a group of European transport enforcement agencies. In September 2006, we welcomed 12 Traffic Examiners from Austria, Belgium, France, the Netherlands and Luxemburg to Leeds for the 15th European Exchange week. The theme this year was 'Introduction of Digital Recording Equipment in Member States'.

Gathering data from collisions

The number of road accidents and casualties is still showing a downward trend with both figures down 5% compared with the same period in 2005.

There is also further progress towards the DfT target to reduce the number of killed and seriously injured (KSI) by 2010 by 40% against the 1994-98 baseline average, with provisional figures for 2006 showing a reduction of 34%.

Road accidents and casualties per year



KSI per year against 1994-98 baseline average

1994/98 baseline	2003	2004	2005	2006
47,656	37,215	34,351	32,160	31,540
% reduction	22	28	33	34

Our work on collision investigations enables a better understanding of both technical and operational factors that might contribute towards non-compliant behaviour and unsafe driving and hence causes of accidents. In response to police requests, last year our examiners carried out investigations involving 993 HGVs, 446 PSVs and 875 cars and motorcycles. The findings from these investigations were then recorded on an accidents database to help to improve understanding of accident causation. In March 2007, we achieved ISO accreditation in relation to our investigations into vehicle and component defects.

We increased the awareness of safety recalls within the UK, particularly through visits to manufacturers to look at their processes and identify areas of improvement. We also visited a nominated dealership where we recommended process improvements, following a review of their front-end processes. We set up an intranet site to communicate safety matters with our colleagues in Europe.

This year saw the highest number of recalls, combined with the highest overall response rate since 1979 of just under 92%.

Recall campaign trends

2006/07	2005/06	2004/05
313	269	255

These recall campaigns accounted for almost 1.14 million vehicles.

Improving journey reliability

We have been working with the Highways Agency to deliver their target of improved journey reliability by helping to tackle the causes of 'non-recurrent' congestion involving HGVs, reflected within the following target and measure:

Key Target:

To contribute to making journeys more reliable on the strategic road network, improving road safety and minimising congestion, by working in partnership with the Highways Agency and targeting "at risk" vehicles

Key Measure:

To identify* and take action** on goods vehicles "at risk", initially through a pilot scheme in the South East of England

* Identified through Highways Agency and VOSA research

** Targeted operations will cover a range of activity both preventative and punitive

The pilot was a great success, with a significant increase in the number of checks on vehicles on international journeys in the South East, both at inland sites and ports.

- ***19,462 roadworthiness checks were carried out, with a prohibition rate of 47.7%***
- ***15,066 traffic checks were carried out, with a drivers' hours prohibition rate of 19.6%***
- ***4,800 vehicles were weighed, of which 26.1% received overloading prohibitions***

The introduction of 24/7 shift working for VOSA examiners at Dover and Coquelles (Eurotunnel) was a significant factor in this achievement.

Three large-scale, high profile operations took place during the year, and the pilot overall attracted a great deal of positive media coverage, raising awareness of road safety responsibilities amongst international hauliers. Highways Agency statistics have shown a decline in incidents involving left hand drive (LHD) lorries on the South East Network since the introduction of the pilot.

Throughout 2007/08, we will be increasing our hours of operation in other high risk traffic hotspots, installing additional equipment to cover a greater range of road safety checks, e.g. roller brake testers and weighing, and increasing the number of staff directed to this particular area of targeted enforcement.

We also conducted research into side-swiping incidents involving LHD vehicles. These incidents occur where the drivers of LHD vehicles are unable to detect other vehicles in their blind spot. We consequently identified the solution of using Fresnel lenses which allow visibility in this area. As a result, over a 3 week period last year, the Highways Agency supplied 40,000 lenses which were distributed by the UK Immigration Service (UKIS) to LHD vehicles entering Britain via ferry ports and the Channel Tunnel.

Since the project started, the number of side-swiping incidents in the South East dropped from a rate prior to the trial of 26 per week, to 11 - a drop of almost 60%. This represents a significant contribution to combating these potentially very dangerous incidents, as well as congestion. As a result of this initiative, MAN Trucks and the MOD are considering fitting the lenses to all vehicles in their fleet.

Modernised operator licensing

Key Target:

To contribute to improved road safety by reducing the administrative burden of commercial operation and increasingly targeting enforcement on non-compliant vehicles and drivers

Key Measure:

Agreed plan for licensing reform implemented within 12 months of the decision to proceed

The modernisation of operator licensing aims to reduce the burden on the road freight and passenger transport industries while maintaining safety standards.

A Ministerial Statement of 6 December 2006 outlined the Government's proposals for streamlining and modernising the licensing system for HGV and PSV operators:

- New arrangements for holders of more than one licence involving the allocation of a lead Traffic Commissioner responsible for all of an operator's licences
- A simplified fee structure with most licence fees being merged with fees for annual roadworthiness tests
- Abolition of windscreen 'O' licence disc for goods vehicles
- Review of the 28-day margin concession for goods vehicles.

There was a delay in confirming the reform package and the Ministerial Statement also recognised that further work is required on some of the proposals such that it is no longer appropriate to aim for the timing indicated in the 2006/07 measure. ***During the year, we worked towards the above proposals in line with the original plans, hence the key measure was achieved.*** In the light of the Statement, we have retained a similar key measure within our 2007/08 Secretary of State Targets.

In the meantime, we successfully transferred the processing of HGV and PSV licence applications from Western, Scottish, South Eastern and Metropolitan, West Midland, the Welsh and Eastern Traffic Areas to the Central Licensing Unit in Leeds. These functions were centralised to provide improved consistency of administration and value for money savings. The centralisation of licensing administration processes is now complete.

The following table summarises the volume of licensing activity in 2006/07:

Volumes	2006/07	06/07 vs 05/06
Heavy Goods Vehicles		
Operator licences in issue	99,794	**-0.1%**
Vehicles on licence	371,522	**0.9%**
New licence applications	8,511	**-3.3%**
Variations to licence	8,458	**0.6%**
Continuation of licences	12,792	**-5.0%**
Public Service Vehicles		
Operator licences in issue	8,889	**0.5%**
New licence applications	1,311	**3.8%**
Variations to licence	1,157	**1.4%**
Continuation of licences	1,097	**5.8%**
Bus permits issued	8,308	**99.6%**
Live bus registrations	23,088	**-1.3%**
New bus registrations and variations	3,795 8,178	**2.0%** **-13.9%**
Cancelled bus registrations	3,049	**-7.9%**

Increasing on-line capability

Take-up of our on-line Operator Self-Service facility continues to increase. Take-up of Phase 1 (enabling changes to be made to vehicle details) increased from 52.8% in 2005/06 to 59.4% in 2006/07. Take-up of Phase 2 (enabling less frequently required changes to licence details such as major variations in fleet size, operating centre) also increased slightly from 23.6% to 24.7%.

At the Government to Business/BT Awards for Innovation in April, the second phase of Operator Self-Service was announced as the runner-up in Best Project: Government to Business category.

Transforming the way we carry out testing

As part of a two-year Testing Transformation programme, we have improved test station utilisation and significantly improved test cycle times. Some of the feedback from customers from station surveys has been very positive, particularly around reduced test cycles.

Key Target:

To improve the consistency of VOSA's vehicle testing service across the country

Key Measure:

By 31 March 2007 reduce the variation in initial test fail rates by one third from the 2005/06 national average for Heavy Goods Vehicles, Trailers and Public Service Vehicles whilst maintaining quality test standards

Although we did not meet the one-third reduction in variation, we did achieve improvements of over 15% across all schemes.

Various factors impacted the ability to achieve this measure:

- A large volume of data had to be newly collected, subsequent to the setting of the measure
- The introduction of new test items also skewed the comparison of results, e.g. changes to headlamp aim testing increased fail results by 5.5%
- Action taken through education to improve the standard of vehicle condition at test, even that which pre-empted the full data being available, takes some time to filter through (i.e. a poor vehicle is not presented again for another year)
- Similarly, where the volumes tested are small, the effect of corrective action may take longer to become apparent
- Above all, some stations simply receive high levels of professionally maintained vehicles

Whilst the measure itself was not achieved, our focus has been on getting the right result, i.e. the correct result for the state of the vehicle.

Following the roll-out of test station Business Process Re-engineering (BPR) - one element of the Testing Transformation Programme, the average test station utilisation has increased from 74% in April 2006 to 84% in March 2007.

Volumes of annual tests were fairly similar to the previous year:

Annual tests	2006/07	06/07vs 05/06
HGVs	706,709	-0.7%
PSVs	81,684	+0.5%

During the past year we have continued work on the e-Test Bookings system, improving system performance and delivering additional functionality to that originally scoped. The new system is now used in all our Test Stations. Over recent months, issues that have affected the system (e.g. weak infrastructure slowing it down, the need for new business rules in the Test Scheduling Engine) have been, or are being, resolved.

The second phase of the project provides the ability for operators and test presenters to check test availability and to book and pay for tests on-line. The launch of this phase to the trade has been delayed while the above issues are addressed.

We missed our HGV Forward Booking Time service standard (95% of appointments on or within 15 days of request) in 9 HGV test stations, although the average overall performance was 98.4%.

Research and technology

A review into future emissions testing of low-emission diesel engines was completed and shows that the current free acceleration smoke test used at annual tests is unable to detect emissions problems on newer diesel engines. We are now looking at the use of scan tools to check emissions more efficiently. Further investigation also continues into what other systems may be checked electronically (such as brakes, lights and air suspension systems) with potential time and equipment savings.

Other projects in development

During 2006/07, we have also worked on a number of other projects at various stages of development including:

- European Community Whole Vehicle Type Approval (ECWVTA): a project to extend whole vehicle type approval to buses, coaches, lorries, trailers and light goods vehicles. Once the Directive receives sign-off, it will take 18 months to enter UK legislation and a further 7 years to be rolled out, according to a timetable set by the EU Commission to ensure a smooth transition for industry.
- London Low Emission Zone (LEZ): we will be supporting the initiative to introduce a London-wide low emission zone to reduce pollution in the capital. The scheme is the first in the UK and the largest in the world and will be implemented over three years. We will be issuing reduced and low pollution certificates at a reduced charge rate to low polluting vehicles to be operated in London. Work this year has included:
    - Writing a contingency plan on how to continue recording the presence of vehicles should the IT system fail
    - An impact assessment of new LEZ work
    - Staff briefings in the South East region
    - Recruitment and training of new staff to cope with extra demand
    - Drafting of technical notes
    - Creating a link to e-bookings for the new tests.
- Driver Certificate of Professional Competence (CPC): work ahead of the legislation is coming into force for all European Union member states, in September 2008 for bus and coach drivers, and in September 2009 for lorry drivers. During the year we presented a recommendations paper on behalf of the enforcement working group on the preferred methods of enforcement and wording for the regulations.

Responding to what our customers tell us

Key Target:

To maintain or improve customer satisfaction at 2005/06 levels

Key Measure:

Operators ≥ 80%
Drivers, Fitters & Presenters ≥ 93%

We achieved our key target, indicated by the supporting key measures on overall customer satisfaction, as follows:

Customer satisfaction survey		2006/07 Actual	2005/06 Actual
Operators			
- overall satisfaction rating		**81%**	**80%**
comprising:	Operator Licensing	**91%**	91%
	Vehicle Testing	**78%**	77%
	Enforcement	**74%**	73%
Speedy issue of new operator licences		**84%**	82%
Ability to book a convenient time for vehicle test		**72%**	68%
Lead time for test bookings		**66%**	62%
Drivers, Fitters and Presenters			
- overall satisfaction rating		**92%***	**93%**
comprising:	Roadside Enforcement Checks	**90%**	93%
	Vehicle Testing	**94%**	93%

*92% is within 2% tolerance level of key measure.

This target also includes a key measure in relation to MOT customer satisfaction. Details of this can be found on page 18.

Twenty-six Traffic Commissioner seminars took place throughout the country during the year, covering issues affecting goods and public service operators, including recent and proposed changes to licensing legislation. All the seminars included guest speakers from an organisation employed by the Government to raise awareness of drink driving and drugs issues in relation to the employment of drivers. Eight DVO workshops were held in 2006/07, to improve operator awareness of services currently provided and outline plans for modernising services.

Driving up the standard of private vehicles

MOT Industry

- Over 29m private and light goods vehicles registered with DVLA
- Around 18,800 MOT garages
- Around 16,500 Authorised Examiners
- Over 48,000 Nominated Testers

Transforming the MOT scheme

MOT Computerisation achieved a landmark 50 millionth test on 28 March 2007, as well as being short-listed for the prestigious Government Computing Awards for Innovation 2007 in the category of Best Project - Government to Business.

"This achievement, combined with the award nomination, shows that MOT Computerisation is proving to be a great success. More MOT tests are currently being carried out and more MOT certificates are being issued than at any time in history. Over 34 million tests were conducted during the past 12 months and over 25 million new-style MOT certificates were issued."

*Alex Fiddes,
VOSA Private Vehicle Director*

The system was also awarded 'Highly Commended' in the category of Best Operational Central Government Project at the prestigious Public:Private Finance Awards.

In addition, a new re-test procedure was implemented on 11 September 2006, enabling vehicles which have failed their initial test to receive only a partial re-examination, subject to certain requirements.

MOT Computerisation enables Electronic Vehicle Licensing for vehicles 3 years old and over, and since its launch in 2004, over 7 million drivers have taxed their vehicles on-line.

Enabling more effective enforcement

During the year, we trialled a system to evaluate garages across a range of MOT related activities. It provides an overall score of the risk they may pose in terms of poor testing standards, and hence to road safety and the environment. The score is then combined with key data from MOT Computerisation and relevant historical enforcement information. This will enable better targeting of high risk garages and testers.

The trial demonstrated a consistent and fair evaluation of 100 MOT garages against 10 key risk attributes. Communication with trade partners has been key to the development of this new process and a Special Notice, Best Practice Guide and DVD have been produced and distributed. Introduction across the MOT network is now underway.

The computer record is now the sole definitive proof that a vehicle has a valid MOT. Motorists can benefit, not only from greater protection in garages but can now also check a certificate's authenticity, and a vehicle's test status and history on-line, or via a telephone helpline. This also enables the police to check the status of a vehicle:

> *"MOT Computerisation has enabled the police to check the MOT status of a vehicle without necessarily stopping it. This reduces the burden on the compliant motorist and saves time and effort in police resources."*
>
> *Nikki Watson,*
> *Association of Chief Police Officers*

MOT training

We are responsible for the delivery of the training of Authorised Examiners (AEs) and Nominated Testers (NTs), and through the year we carried out just under 4,000 days of training covering MOT testing of cars, light vehicles and motorcycles.

MOT customer satisfaction

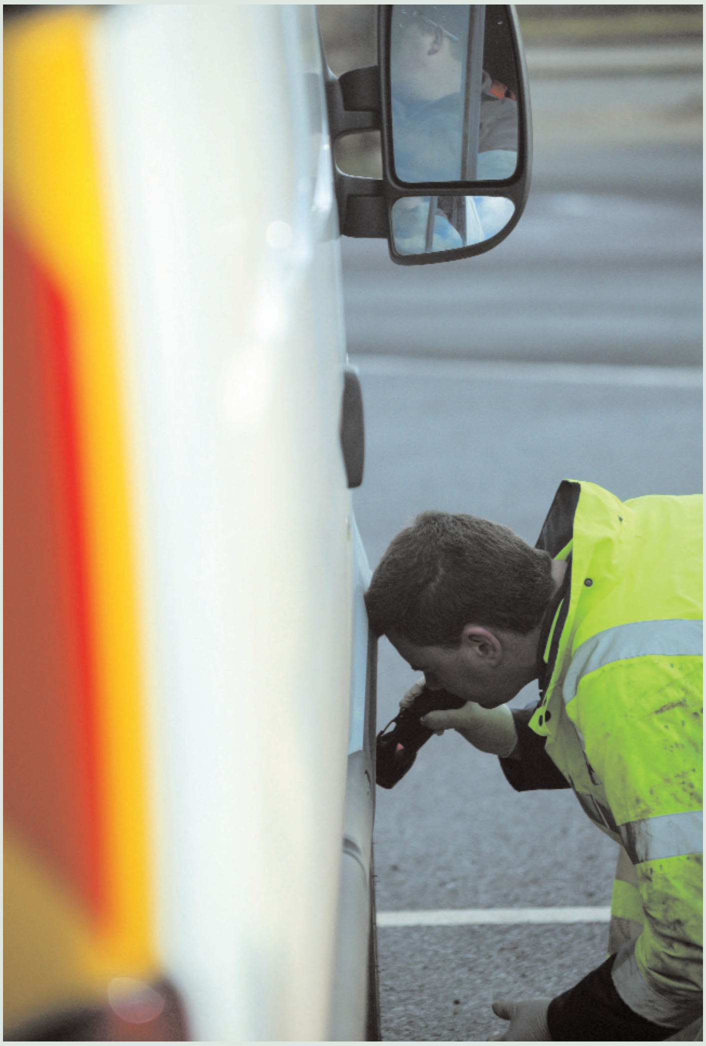
The DVO Private Motorists' survey (covering MOT) showed a further 2% increase in satisfaction levels with the MOT scheme since the last survey conducted during 2005/06. This result contributed to the achievement of our customer satisfaction Secretary of State target.
Also refer to page 14.

MOT Customers	2006/07 Actual	2005/06 Actual
- overall satisfaction rating	94%	92%

Surveys were also carried out at 650 MOT garages across Great Britain during November and December 2006. The findings were extremely positive, with overall satisfaction with VOSA at 90% and with MOT test procedures at 89%.

Enforcing safe MOT testing

We took appropriate disciplinary action throughout the year to improve standards, raise compliance and contribute towards safer vehicles on the roads. Almost 39,000 enforcement checks were carried out with 70 targeted AEs withdrawn and 141 NTs disqualified.



Enforcement of light goods vehicles

The prohibition rate of roadworthiness checks increased from 49.9% to 53.5%, while the rate for weighing checks increased from 38.7% to 55.1%. The increase in prohibition rates was achieved through better targeting, with a consequent reduction in burden on the compliant. The overall number of LGV prohibitions declined slightly, by 6.8%, but the number of checks on these vehicles fell by 19.1%, due to prioritisation of enforcement activity on unroadworthy HGVs and PSVs. New reporting arrangements against the single enforcement budget for 2007/08 will ensure that appropriate levels of enforcement are being applied across all vehicle types.

Developing our organisation to improve delivery

Effective employment of our staff

VOSA staff have faced a challenging year which has seen considerable effort put into improving performance management and arrangements for staff development.

Investing in our people

A staff survey was carried out in-year which produced some disappointing and challenging results. Action plans were drawn up at all levels to address the issues raised. Three Directors were identified to champion Leadership, Values, and Learning and Development activities. The action plans supplement initiatives that were in place to address issues already identified.

An Investors in People (IiP) assessment was carried out across VOSA during November and December 2006. It was found that 23 of the 39 indicators were already being met. During the year, we continued to work towards becoming fully accredited by the end of 2007. Good progress was made, with important steps taken to strengthen learning and development, and communication activities. Training needs analyses in areas such as management development and leadership have also been carried out.

More timely and more job-specific Annual Staff Reports, capturing performance appraisal and personal development planning activities, have been carried out. A talent management strategy and Board, Senior and Middle Management development programmes have been launched in-year to develop our people and improve performance against the DVO competency and the Professional Skills in Government (PSG) frameworks.

We commenced training of our examiners on changes in enforcement activity relating to the introduction of Digital Tachographs and the Mobile Compliance Device. This training will run into 2007/08. In February 2007, the first Vehicle Examiners were awarded the B-Tech (level 4) Diploma in Post Collision Examinations.

Working for equality

Work continued during the year towards achieving the aims of the Civil Service 10-Point Plan on Diversity. Delivering on equality is central to our core values - and also improves our capability to deliver. We carried out Diversity Training for managers, and in December 2006 we held a Disability workshop.

Further training workshops took place during the year to enable staff to carry out equality impact assessments on relevant policies and processes.

We continue to work towards increasing the number of people from black and ethnic minority groups within the organisation. A further Ethnicity survey was carried out in February 2007 and we have been exploring ways to improve local recruitment by using more creative advertising strategies to widen the pool of applicants. Using the services of a specialised diversity agency, an Open Day was held at Leeds Traffic Area Office in August 2006 which raised VOSA's profile amongst the black and ethnic minority communities, with additional staff recruited as a result of this initiative.

Promoting a healthy workforce

Overall sickness absence rates increased slightly from an average of 9.2 days per employee in 2005/06 to 9.6 days in 2006/07. Cases of long-term sickness absence (over 30 days) continue to be a significant factor.

Work has continued during the year to tackle the challenging target of reducing sickness absence, including:

- management training on sickness absence management
- stress management training
- post trauma training for affected staff
- post trauma training for managers
- a programme of health awareness days
- visits to employees on long-term sickness absence and
- cost effective funding of private treatment to assist an early return to work.

Working with our Trade Unions

VOSA has worked effectively with the Trade Unions during the year and has consulted extensively on major projects and change initiatives. Despite some problems and disagreements, industrial relations have improved and the working agreement and related protocols for consultation and negotiation signed in 2006 have bedded in well.

Modernisation of our estates

During 2006/07, we completed successful modernisation of three test stations (Grantham, Newcastle and Caernarfon) with a further two well under way and due for completion in 2007/08 (Chelmsford and Shrewsbury). Work on relocating and modernising the Bristol station has also started and is due for completion in 2008/09.

At the same time as refurbishing our test stations, VOSA continues the replacement and modernisation of equipment used within the test stations. The cost of this programme of equipment upgrade to the end of March 2008 is expected to be around £7m. This investment includes the purchase of new diesel smoke meters, in line with revised testing requirements, and combined emission testers for those stations where exhaust gas analysers are also used. We also invested in new roller brake testers and wheel play detectors for stations in the initial tranche of equipment refresh.

Our Environmental Management Team have achieved key milestones in taking forward sustainable development across our estate. We have recently published our first Sustainable Development Action Plan, detailing our plans for the future in terms of both business and operational activities. The Plan can be accessed at:

http://vosanet.vosa.gov.uk/cmsintra/groups/public/documents/published_files/asustainabledevelopmentactionp.doc

Over the last year, we have rolled out a water management programme that is effectively reducing consumption across our estate, improving our efficiency and identifying any water leaks at an early stage. We have taken forward contracts to obtain regular utility meter readings, improving our cost-effectiveness, and to survey current waste management processes, with the aim of reducing waste to landfill and increasing the use of recycled materials. Around 96% of the VOSA estate now consumes electricity generated from renewable sources.

Facilitating safety

Work continued during the year on improving employee and customer safety at our testing stations and enforcement check sites through more effective management and control of vehicles and people. Examples of corrective measures implemented include:

- Supervision of both the coupling of the trailer that some stations hire out for trailer testing purposes, and of the vehicle's entry into the station
- Introduction of the drive-through customer experience and improved customer safety controls at test stations that have been subject to business process re-engineering
- A clearer warning to customers not to bring children or animals to our testing stations.

To ensure continuing compliance with the Control of Noise at Work Regulations 2005 and other environmental Health and Safety requirements, we completed noise and air quality assessments at our modernised Testing Stations and some of our busier check sites. All readings were within prescribed occupational exposure limits.

The contracting out of key holder responsibilities for out-of-hours emergencies at our premises was implemented in June 2006. This was an employee safety initiative which also enables VOSA to adopt a more professional approach to building security.

Delivering value for money

Key Target:

To deliver VOSA's Value for Money Plan

Key Measure:

Delivered efficiency and effectiveness savings in 2006/07 equivalent to 5% (£7m)

Our target for VfM savings this year was £3m, with an actual outturn of £4.8m achieved through increased efficiency and improved effectiveness. Headcount reductions were achieved largely as a result of the re-engineering of a number of processes and the centralisation of Licensing.

	Posts at 31/03/07
Opening baseline	2,708
New posts	89
Re-investment	10
Savings	(181)
Posts at 31/03/2007	2,626*

* Based on filled and unfilled posts as at 31 March 07

The effectiveness gain objective of 5% was exceeded by 2.8%.

We invested in new work in a number of areas within our enforcement activity, including the South East pilot (refer page 10). Staff savings were made through a number of projects, in particular Testing Transformation (80), centralised Licensing (42) and HQ rationalisation (38). The shortfall against the original Business Plan is expected to be saved in 2007/08, particularly through MOT, HQ rationalisation and Graduated Fixed Penalties and Deposits (GFPD), although the timing of savings for GFPD will be dependent upon any further changes to the legislative timetable (refer page 8).

This year we also re-invested 10 of our staff savings into front-line operations, as agreed with the Department. Plans for 2007/08 include further re-investment of savings into an increase in our front-line enforcement staff.

Value for money through electronic services

Key Target:

To increase the take-up of electronic services available to customers

Key Measure:

By 31 March 2007 to have increased monthly take-up of existing and newly delivered electronic services to 30% in-year

We exceeded our target by 37.4%, electronic MOT test payments being a significant contributory factor.

Ensuring effective delivery of our services

As a government agency we have an obligation to ensure that our services are effective, of high quality, and deliver value for money. We seek to continually improve our services to ensure these are fit for purpose when working with the Transport Industry in the 21st Century. Earlier this year we commenced work on an outsourcing feasibility study to assess whether further private sector involvement in delivering our services can help us to:

- Deliver better value for money
- Improve customer service
- Lighten the regulatory burden and
- Deliver wider government objectives.

Road safety standards and quality of service will remain our primary concern as an organisation.

To date, we have analysed a number of potential options and, over the coming months, we will be working with our DfT colleagues to ensure that any proposals align with DfT's current and future requirements. A preliminary business case is due to be presented to DfT in the Autumn.

Directors' Report

The Role of VOSA

The Vehicle and Operator Services Agency's responsibilities, which are undertaken in conjunction with other authorities, are concerned with enforcing the law on vehicle safety and environmental protection legislation. This is carried out through:

- the administration of operator licensing
- the statutory testing of heavy goods vehicles, public service vehicles, light goods vehicles and those vehicles encompassed by the single vehicle approval and vehicle identity check schemes
- specialised inspections for premises storing and vehicles transporting dangerous goods, perishable foodstuffs and goods sealed for Customs purposes
- enforcement activities to ensure vehicle roadworthiness and compliance of drivers and operators with road traffic regulations such as drivers' hours and load weights, and
- the supervision of the MOT Testing scheme.

VOSA also provide the independent Traffic Commissioners with administrative support in regulating the commercial vehicle transport industry, including the registration of bus services, the licensing of vehicles and operators, and Public Inquiries.

Background

The Vehicle and Operator Services Agency (VOSA) is a Trading Fund. It operates as part of the Driver, Vehicle and Operator (DVO) Group within the Department for Transport (DfT) and was formed on 1 April 2003 by the merger of the Vehicle Inspectorate Trading Fund (VI) and the Traffic Area Network (TAN), a division of DfT. From 1 April 2007, the DVO Group has become part of the Safety, Service Delivery and Logistics (SSDL) Group within DfT.

VI was founded in 1964 as a division of the Ministry of Transport and was established as the first Executive Agency under the Government's Next Steps initiative on 1 August 1988. It attained Trading Fund status under the provisions of the Government Trading Funds Act 1973, with effect from 1 April 1991. On 1 April 1992, the Traffic Enforcement functions previously undertaken by DfT were incorporated into VI's responsibilities.

TAN was created under the Road Traffic Act 1930 with responsibility for issuing licences for Public Service Vehicles. These responsibilities were extended under the Road and Rail Traffic Act 1933 to cover the licensing of goods vehicles and operators. Specific responsibilities have changed throughout the intervening years, the most notable being the transfer of responsibilities for driving tests to the Driving Standards Agency in 1990, the transfer of issuing vocational licences to the Driver and Vehicle Licensing Agency in 1991, and the transfer of Traffic Enforcement functions to VI in 1992.

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Business Priorities

The business priorities of VOSA are set out on page 3 of the Annual Report.

Financial Objectives

The Government Trading Funds Act 1973 lays upon the Minister responsible for each fund the financial objective of:

i. managing the funded operations so that the revenue of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to the revenue account, and

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

The financial objective of VOSA is to earn an average return of 3.5% per annum in the form of an operating surplus, expressed as a percentage of average net assets employed at current values over the period 1 April 2003 to 31 March 2008 and is set out in the HM Treasury minute reproduced at Annex A to the accounts. VOSA has the additional financial objective in the year, as set by the Secretary of State, of delivering against an agreed VOSA 'Value for Money' plan, achieving efficiency and effectiveness savings of 5%.

VOSA Governance

Responsibility for the leadership and management of VOSA is split between its Directing and Management Boards.

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

The following officers constituted VOSA's Directing Board at 31 March 2007:

Mr Stephen Tetlow	Chief Executive
Mr Jeffrey Belt	Corporate Services Director
Mr Hugh Edwards	Goods Vehicle Director
Mr Tony Downes	Business Strategy and Corporate Development Director (from 25 April 2006)
Mr Alastair Peoples	Testing and Inspections Director
Mrs Janice James	Intelligence and Targeting Director
Mr Alex Fiddes	Private Vehicle Director
Mr David Trussler	Commercial Customer Services Director
Mr Kevin Rooney	Passenger Vehicle Director (from 16 October 2006)

Non-Executive Directors

Mr Alex Jablonowski	non-executive appointee
Mr Paul Smith	non-executive appointee (from 16 November 2006)
Mr John Doran	non-executive appointee

Mr Stephen Hickey, Director General DVO Group and Ms Vivian Bodnar, Director of Strategy and Resources, DVO Group, attend key Directing Board meetings three or four times a year, when such topics as the Agency's Business Plan and targets are considered.

Miss Linda Willson took up a Senior Civil Service role in DfT during November 2006. Mr Tony Downes transferred to the role of Business Strategy and Corporate Development Director and Mr Kevin Rooney was appointed Passenger Vehicle Director, following open and fair recruitment in October 2006, to facilitate handover of responsibilities.

The VOSA Management Board is responsible for the balanced delivery of VOSA's Business Plan commitments and leads the effective and efficient delivery of VOSA's total programme of change, ensuring that this programme fits with DVO Group and DfT change agendas.

The officers constituting VOSA Management Board are the executive directors noted above and also the following additional members:

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

Non-executive Directors do not attend the VOSA Management Board, but are advised of the business of the VOSA Management Board and can request sight/copies of specific papers as they deem relevant.

The VOSA Directing Board has established two committees to support it in its responsibilities - the Audit and Risk Committee and the Remuneration Committee.

The VOSA Audit and Risk Committee responsibilities and membership are set out within the Statement on Internal Control on page 45 of this report.

During the year Mrs Caroline Blatchford resigned as a non-executive appointee. Mrs Blatchford was replaced by Mr Paul Smith on 16 November 2006. Mr Alex Jablonowski replaced Mrs Caroline Blatchford as Chair of the Audit and Risk Committee.

Mr Jablonowski acts as Chair of the VOSA Remuneration Committee, providing advice to the VOSA Directing Board on the annual pay remit, bonus schemes etc.

VOSA reports to the DVO Board on its performance during the year, and its proposals for its annual Business Plan. The DVO Board is responsible for advising the DVO Director General, as Additional Accounting Officer, on his recommendation to Ministers of the Agency's Secretary of State Targets and business plans, and on performance during the year against these targets and plans. These responsibilities continue unaltered as a result of the DVO Group becoming part of the SSDL Group following the recent reorganisation within DfT.

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Pension liability

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

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

Employment of registered disabled

Full and fair consideration is given to applications for employment by disabled persons, having regard to their particular aptitudes and abilities. Wherever possible, arrangements are made for the continuing employment of persons who have become disabled during service, and for the appropriate training, career development and promotion of disabled employees.

Staff involvement

During 2006/07, VOSA employed, on average, 2,578 (full-time equivalent) people throughout the country. VOSA is an equal opportunity employer. Consequently, all staff, irrespective of their status, origin, sexual orientation, religion or beliefs, will be treated equally and judged solely on the basis of their ability, qualifications and fitness for the work.

Staff involvement is actively encouraged within VOSA as part of the day-to-day process of line management, supplemented by the wide dissemination of information through computerised networks and other means, including an in-house electronic magazine entitled VOSAlink. Formal and informal negotiations and consultations are conducted with trade unions, at both local level and national Whitley Councils.

Training and Health and Safety

One of management's main priorities is to invest positively in vocational training and individual personal development. VI was initially accredited as an Investor in People (IiP) organisation in December 1999 and re-accredited in January 2003. Following the merger between TAN and VI that created VOSA in April 2003, the new organisation continued to be recognised as an Investor in People under IiP's Merger and Acquisitions guidelines. However, VOSA did not meet all of the elements of the IiP National Standard during the 2005 review and, as a result, have been placed in a "Retaining Recognition" status. The 2006 review has shown that considerable improvements have been made and that VOSA has met 23 of the 39 evidence requirements. If this progress continues, the organisation is well placed to return to a fully accredited status by the target date of December 2007. The Directing Board is committed to return to an accredited status during the coming year.

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

The health, safety and welfare at work of all employees continue to be a priority, and safety policies and procedures remain under continuous review to achieve further improvements.

Policy and practice on the payment of creditors

VOSA's policy, in line with that of DfT, is to pay 98% of all undisputed bills in accordance with contractual conditions or, where no such conditions exist, within 30 days of the receipt of goods or services or the presentation of a valid invoice, whichever is the later.

Throughout the year, 99% of undisputed invoices were settled within this policy. VOSA is also a supporter of the Confederation of British Industry's “Prompt Payers Code of Good Practice”.

Market value of land and buildings

Freehold and leasehold land and buildings are re-valued over a five year period, with approximately one fifth of the estate being valued each year by an independent valuer. The Directors consider that there is no significant difference between the book value and the market value on an existing use basis of the land and buildings.

Movements in tangible fixed assets are set out in note 6 of the accounts.

Auditors

The accounts of VOSA are audited by the Comptroller and Auditor General and his Certificate and Report to the Houses of Parliament is presented in the Annual Accounts on page 50. The financial statements are audited in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

Audit fees charged in the accounts amount to £51,500 (2005/06 £50,000). There were no non-audit fees charged in either 2006/07 or 2005/06.

Disclosure of audit information to VOSA's auditors

As far as the Accounting Officer is aware:

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

Authorisation of Accounts

The Financial Statements were authorised to be issued to the Secretary of State on 18 July 2007 by Mr Stephen Tetlow in his capacity as Chief Executive and Accounting Officer of VOSA.

Accounts

Accounts Direction

The accounts on pages 52 to 73 have been prepared in accordance with the direction given by the Treasury in pursuance of Section 4(6)(a) of the Government Trading Funds Act 1973, and Dear Accounting Officer letter [DAO (GEN) 12/06].

Management Commentary 2006/07

The Management Commentary has been prepared in compliance with Reporting Statement 1 and provides a high level overview of the main areas of VOSA's financial performance for the prior, current and future business planning year and also sets out, in summary, VOSA's plan for the coming year.

This commentary focuses on the financial performance of VOSA for the year 2006/07. Commentary on performance against VOSA Secretary of State Targets and other Key Performance Indicators can be found on pages 7 to 24 of the Annual Report.

Financial performance

The Income and Expenditure Account for the year 2006/07 is set out on page 52 of the Annual Report. The statutory activity and enforcement work is funded through fees and charges, with additional funding for enforcement activities provided from the Single Enforcement Budget administered by the DVO Group (monitored through volume-based Service Level Agreements between VOSA and DfT, acting on HM Treasury's behalf). After analysis of direct and activity-specific costs, the overhead running costs are allocated between the activities.

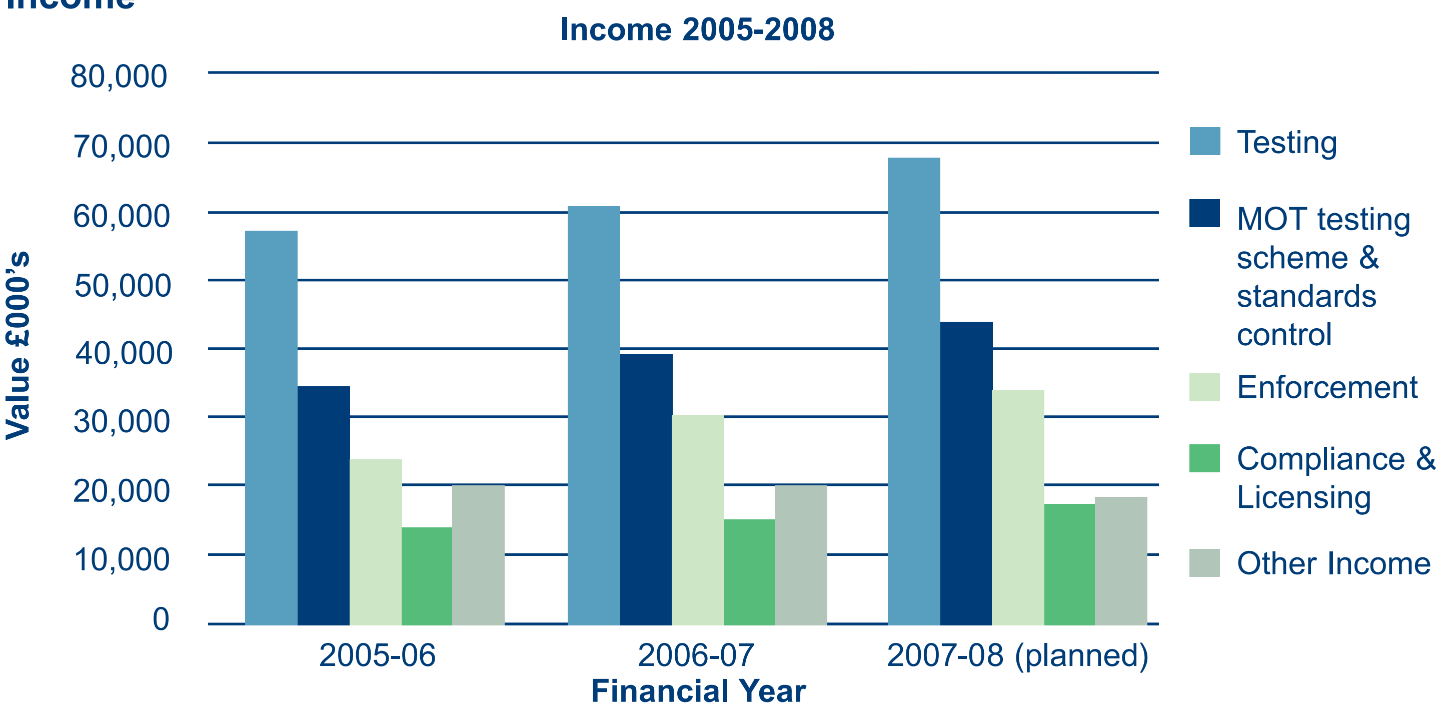
As a Trading Fund, VOSA is set a financial objective to break even year on year (set out on page 26 within the Directors' report). Whilst VOSA has made an overall deficit for the current year, the cumulative position for VOSA remains in surplus. The Agency has a duty to set its fees for future periods that will result in a balanced overall position, and therefore structures fees and charges on this basis. In future years, VOSA is planning to rationalise and simplify the fees currently charged.

The outturn for the year produced a deficit of £19.3m at the operating level. The major contributing factor was the full year costs of the completed roll-out of the MOT computerisation system, which resulted in planned payments associated with the transactional volumes undertaken through the computerisation system. This will continue to reduce the surplus of the MOT scheme (see Note 2 to the accounts) which we expect to return to a balanced position over the next two years.

As presented in the Business Plan for the coming year, the planned outturn in 2007/08 will be a deficit of £16.2m at the operating level (this being in relation to MOT tests being undertaken on the computerisation system resulting in continued payments for MOT transaction volumes). This will continue to reduce the surplus of the MOT scheme (see Note 2 to the accounts).

Accounts

Income

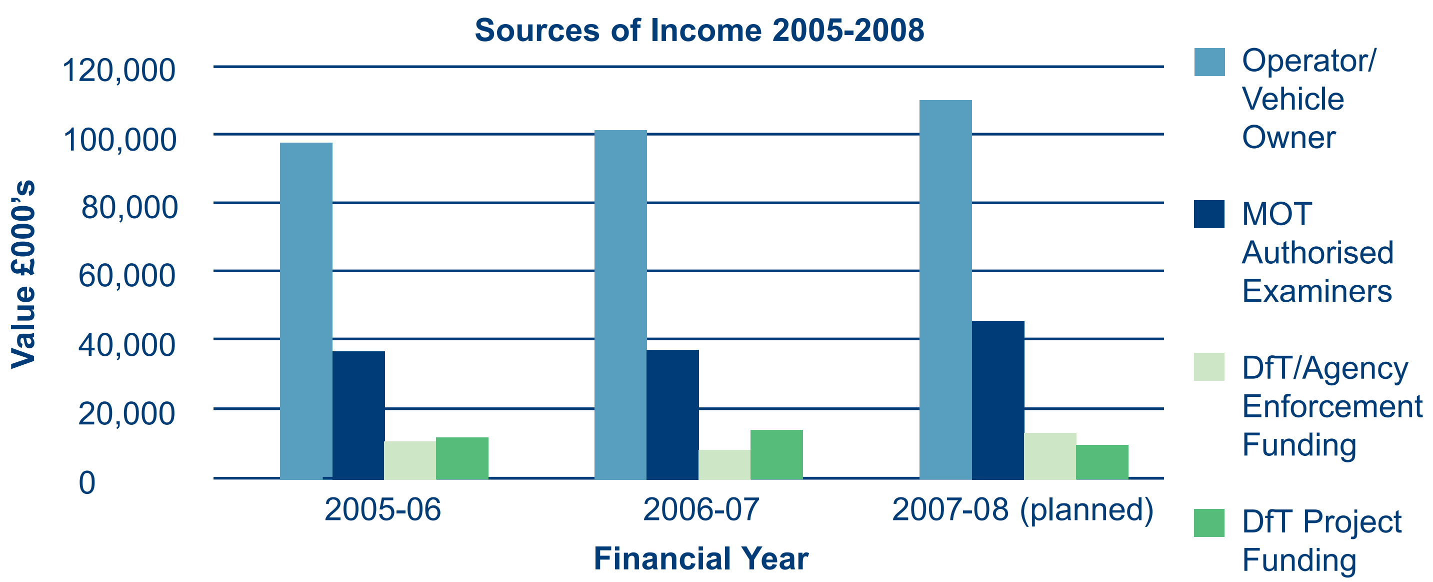


The income for the year was £165.5m (2005/06 £151.9m), an increase of £13.6m (9.0%) on the previous year. Income from activities increased by £14.5m due to fee increases in the MOT scheme, statutory testing and licensing activities. Other operating income decreased by £0.9m, mainly due to a reduction in the release of funding received from the DfT and Central Government budgets.

Sources of income

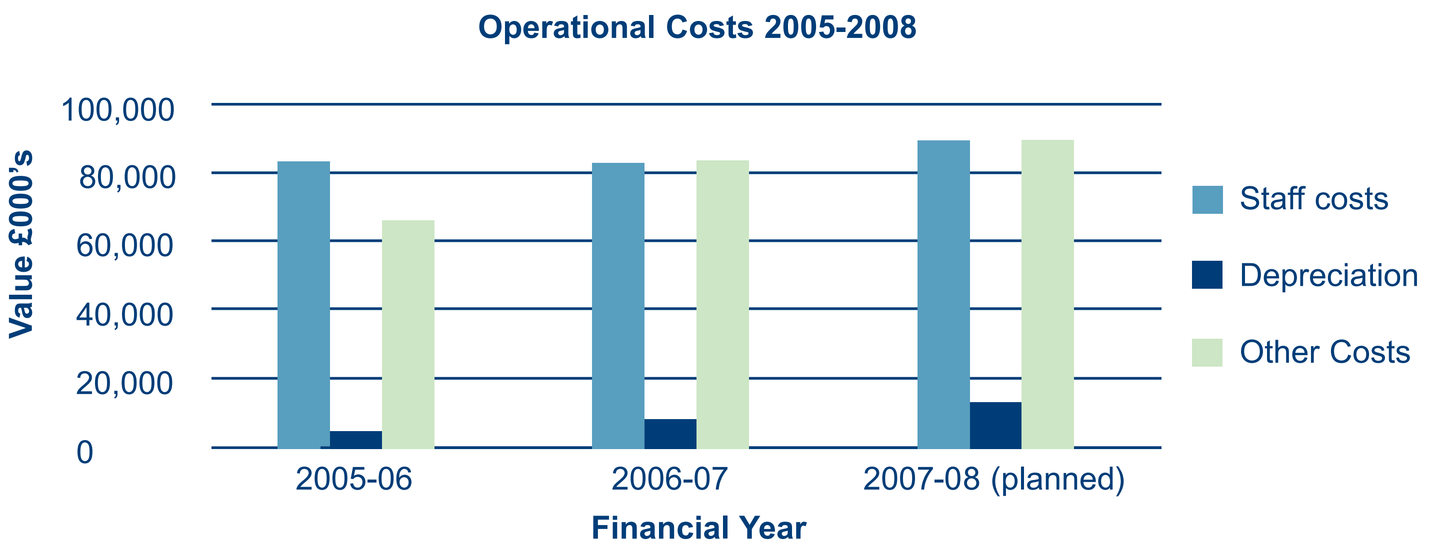
VOSA's income is obtained from three main sources:

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



Operational costs

Total operational costs increased by £23.7m (14.7%) to £184.9m (2005/06 £161.2m). Staff costs have increased by less than 0.1% to £86.3m, slightly below our forecasts. Included within this movement is a reduction of £1.3m in direct staff costs (e.g. salary, overtime) as a result of the reduction in the numbers of staff employed by the Agency (see Note 4b to the accounts). This decrease has, however, been offset by increases in the costs incurred in the pay award implemented in-year and the employment of temporary agency staff and consultants with specialist skills and/or knowledge covering full-time civil service posts. There has also been an increase in the employer's superannuation charges again this year. Other operating charges increased in the year by 27.7% to £86.5m, slightly below our forecast outturn. The increase from last year was mainly due to an increase in payments to Siemens Business Services for passed test results recorded on the MOT Computerised system - this year being the first full year of the system's operation. There has also been an increase in other IT spends arising from new projects undertaken with ATOS Origin, our main IT provider. Spend also increased slightly on estate maintenance and telecommunications, whilst reductions in costs were seen in postage and stationery, and advertising.



Delivery of Value for Money savings has maintained a consistent level of staff costs, after allowing for inflationary increases and additional employer's superannuation charges. Depreciation costs are anticipated to increase as a result of the implementation of the Commercial Portal and the development of e-services which will be provided through it. The increase in other costs arises predominantly from higher IT spend due to enhanced business systems and improvement to the VOSA infrastructure.

Asset management

During the year, there has been continued significant investment, both in the modernisation and refurbishment of the testing station estate across the UK and also in the development of some major IT systems, including the e-enablement of the test booking and payment system which is included under assets in the course of construction at year end.

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The level of debtors showed a small increase in the year, primarily due to an increase in the level of VAT owed to VOSA from HMRC, with trade debtors reducing.

The level of creditors held has decreased in the year, primarily resulting from the reduction in fees in advance. There has also been an increase in the level of loans repayable within one year.

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

Net funds

Net funds stand at £8.9m, a net decrease of £39.9m in-year. This is due to the net increase in loans granted of £13.5m made in-year for the ongoing investment in the estates refurbishment and commercial portal projects. There was a reduction in the value of cash at bank during the year of £26.4m, primarily due to the planned return of surpluses in the MOT Scheme.

VOSA manages liquidity risk within the framework of operating as a trading fund within DfT. The cash balance is held in short-term, interest-bearing accounts and a significant part of it is held in the account at the Paymaster General's Office.

Return on Capital (ROC)

The average ROC over the period 1 April 2003 to 31 March 2007 was 0.7% - against the target average figure of 3.5% achievable over the period 1 April 2003 to 31 March 2008. This outturn has arisen due to the deficits incurred on the MOT scheme where we have returned past surpluses to the trade.

In the previous 5-year ROC period (1 April 1998 to 31 March 2003) when the MOT surpluses were being built up, the ROC outturn was an average of 8.0%.

Over the nine year period, 1 April 1998 to 31 March 2007 - covering the whole period of the MOT project - the average ROC is 3.8%.

Throughout this period, VOSA has made a return to DfT, through repayment of loans and interest payments due on the loans, in excess of the target ROC levels (as set out in Note 5b to the accounts on page 62 of this report).

Forward plans

VOSA's mission is:

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

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

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

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

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

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

- Maintain or improve customer satisfaction
- Increase the range of electronic services available to customers
- Improve the consistency of vehicle testing services across the country
- Improve the quality and consistency of the private vehicle testing service to the public
- Contribute to improved road safety through better targeting on non-compliant vehicles and drivers
- Contribute to more reliable journeys on the strategic road network, improved road safety, minimised congestion
- Reduce the burden of commercial operation
- Deliver modernised support services to Traffic Commissioners
- Deliver final year of VOSA's 4-year Value for Money Plan
- Increase the take-up of existing electronic services available to customers

These targets are supported by 17 measures - details can be found in the VOSA 2007/08 Business Plan.

Key activities enabling these targets in 2007/08 include:

- Continuing to build on improvements to our testing and licensing services
- Enhancing our newly centralised support to the modernising agenda of the Traffic Commissioners
- Accelerating our targeted enforcement through the roll-out of new networked real-time technologies at the roadside; analysis of Digital Tachograph use; enhancement of our VIPER detection systems; and the introduction of Graduated Fixed Penalties and Deposits
- Improving our rate of detection of high-risk traffic - including international journeys
- Further improving our testing services - ensuring we are more efficient, more available and more consistent across the network
- Rolling out a risk-based system for the enforcement of the MOT testing scheme
- Expanding the range of electronic services and on-line information available to operators and motorists.

During 2006/07 we revisited our strategy to ensure that it remains relevant and appropriate. Our review of our strategy also fits with the 2007 Comprehensive Spending Review and will ensure that we are able to contribute towards the delivery of 2011 SSDL end-states. In recent months, we have been developing a directional target operating model (TOM) - a blueprint of the organisation in 2011 and beyond to 2020. The TOM enables us to demonstrate a clear intent and future for VOSA. It will describe the capabilities required for us to achieve our longer term strategy, revolving around the following strategic themes:

- Effective targeting of compliant and non-compliant operators and garages with education, deterrence, sanctions and enforcement
- A segmented and risk-based approach to communication, testing and enforcement to reduce regulatory burden
- Providing consistent and value for money service delivery
- Enhancing value to road users and the vehicle industry through outstanding services
- Innovation in the delivery and development of vehicle and operator services to address industry, government, technological and environmental needs.

This longer-term, directional view of VOSA is also captured in a visual routemap - "VOSA's Journey" - that has been communicated throughout the organisation to encourage discussion and dialogue, and to help all our staff understand why the Agency is changing and where it is trying to get to. We are working closely with DfT to ensure that our plans are congruent with the Department's evolving policy.

Remuneration Report

Remuneration Policy

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

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

(i) Value for money from the pay bill
(ii) Financial control of the pay bill
(iii) Flexibility in pay systems
(iv) A close and effective link between pay and performance, and
(v) Compliance with employment legislation.

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

Senior Civil Servants

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

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- Government policies for improving the public services, including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the Government's departmental expenditure limits, and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at: **www.ome.uk.com**

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit, on the basis of fair and open competition, but also includes the circumstances when appointments may otherwise be made.

The officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 65. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at:
www.civilservicecommissioners.gov.uk

Salary and pension entitlements

The following sections of the Remuneration Report, which have been subject to audit, provide details of the remuneration and pension interests of the Directors of the Agency. Benefits in kind were not received by any Directors during the year.

Directors	2006/2007 Salary £'000	2005/2006 Salary £'000
Mr Stephen Tetlow Chief Executive	**125-130***	100-105
Mr Jeffrey Belt Director	**75-80**	70-75
Mr Hugh Edwards Director	**60-65**	60-65
Mr Martin Jones Director	**60-65**	60-65
Mr Alastair Peoples Director	**65-70**	65-70
Mrs Janice James Director	**60-65**	15-20 (full year 60-65)
Mr Alex Fiddes Director	**60-65**	15-20 (full year 60-65)
Mr David Trussler Director	**70-75**	0-5 (full year 70-75)
Miss Linda Willson Director (to 26 November 06)	**45-50 (full year 65-70)**	65-70
Mr Tony Downes Director (from 25 April 06)	**55-60 (full year 60-65)**	N/A
Mr Kevin Rooney Director (from 16 October 06)	**30-35 (full year 60-65)**	N/A

* *Mr Tetlow's salary includes the payment of a bonus relating to the achievement of objectives in respect of the 2005/06 financial year.*

The DVO Group pay the non-executive Directors for their attendance at, and preparation for, the Directing Board and Audit and Risk Committee meetings.

Salary

'Salary' includes gross salary, performance pay or bonuses, overtime, reserved rights to allowances, recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments payable by the Agency and thus recorded in these accounts.

Pension Benefits

Directors	Accrued pension at age 60 as at 31/3/07 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	CETV at 31/3/07 £'000	CETV at 31/3/06 £'000	Real increase in CETV £'000	Employee contrib-utions and transfers in Nearest £100
Mr Stephen Tetlow Chief Executive	**0-5** plus 0 lump sum	**0-2.5** plus 0 lump sum	66	37	24	36
Mr Jeffrey Belt Director	**15-20** plus 55-60 lump sum	**0-2.5** plus 0-2.5 lump sum	489	451*	15	11
Mr Hugh Edwards Director	**25-30** plus 80-85 lump sum	**0-2.5** plus 0-2.5 lump sum	651	619	2	10
Mr Martin Jones Director	**20-25** plus 65-70 lump sum	**0-2.5** plus 2.5-5 lump sum	364	343	15	9
Mr Alastair Peoples Director	**20-25** plus 70-75 lump sum	**0-2.5** plus 0-2.5 lump sum	453	431	11	10
Mrs Janice James Director	**20-25** plus 60-65 lump sum	**0-2.5** plus 5-7.5 lump sum	430	365	51	10
Mr Alex Fiddes Director	**10-15** plus 35-40 lump sum	**0-2.5** plus 5-7.5 lump sum	185	152	26	41
Mr David Trussler Director	**0-5** plus 10-15 lump sum	**0-2.5** plus 5-7.5 lump sum	66	34	27	53
Miss Linda Willson Director (to 26 November 06)	**15-20** plus 55-60 lump sum	**0-2.5** plus 2.5-5 lump sum	342	310*	13	62
Mr Tony Downes Director (from 25 April 06)	**0-5** plus 0 lump sum	**0-2.5** plus 0 lump sum	12	0	9	21
Mr Kevin Rooney Director (from 16 October 06)	**10-15** plus 40-45 lump sum	**0-2.5** plus 0-2.5 lump sum	187	175	10	4

* *The figures included in the above table for the CETV as at 31 March 2006 have been re-stated following a review by DfT Central Pay and Pensions.*

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002 civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in Classic.

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

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

S Tetlow
Chief Executive and Accounting Officer
10 July 2007

Statement of Accounting Officer's responsibilities

Under Section 4(6)(a) of the Government Trading Funds Act 1973, the Treasury has directed VOSA to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction, as set out in Dear Accounting Officer letter [DAO (GEN) 12/06]. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of VOSA, of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis

- make judgements and estimates on a reasonable basis

- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements, and

- prepare the financial statements on the going concern basis.

The Treasury has appointed the Chief Executive of VOSA as the Accounting Officer for VOSA. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting (The Stationery Office Limited).

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of VOSA's policies, aims and objectives set by Ministers, whilst safeguarding the public funds and assets for which I am personally responsible. This accords with the responsibilities assigned to me in Government Accounting.

VOSA, as a Trading Fund, must break even year-on-year for each of the schemes it operates. This means that the costs incurred in providing individual services, e.g. the testing of Heavy Goods Vehicles, should be matched by the income received through fees. In addition, the Agency must meet a 'return on capital' target, which is set by HM Treasury and is designed to measure the return on average resources consumed over the period from 1 April 2003 to 31 March 2008.

The policy framework in which the Agency operates is set out in the DVO Group Governance handbook. This handbook has consolidated and replaced the individual Framework documents for each agency within the DVO Group. The DVO Director General obtains the agreement of the Secretary of State to this Group Governance Handbook.

I seek the agreement of the Secretary of State to the strategic objectives and annual performance targets for the Agency by seeking his approval to the corporate and business plans, including annual key targets and fee levels. I submit periodic performance reports to the DVO Board and the Secretary of State, culminating in the Agency's Annual Report and Accounts.

As of 1 April 2007, the DVO Group became part of the Safety, Service Delivery and Logistics (SSDL) Group. Throughout this statement I make reference to the DVO Board as it was the responsible body during the financial year ended 31 March 2007.

VOSA's Corporate Governance arrangements benefit from active interaction with a number of individuals and bodies with knowledge and expertise to aid me in properly discharging my role as Accounting Officer. Augmenting the VOSA Directing and Management Boards' assistance to me is the advice and guidance I get from the DVO Board, Agencies and DfT partners on arising issues and risks, as well as offering routes to escalate risk. Group assurance is now available across DfT, from the integration of audit strategies and work plans under DfT's Head of Internal Audit.

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

Members
Caroline Blatchford - Non-executive representative and chair. Mrs Blatchford resigned from her position as non-executive representative and chair of the Audit and Risk Committee as of November 2006.

Alex Jablonowski - Non-executive representative. Mr Jablonowski became acting Chair of the Audit and Risk Committee from November 2006.

John Doran - Non-executive representative.

Paul Smith - Non-executive representative.

Accounts

Attendees
Jeffrey Belt - Corporate Services Director (Finance).

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

Paul Sizer - Head of Internal Audit.

Armajit Atkar - Head of DfT Internal Audit (Mr Atkar resigned from his role as Head of Internal Audit for DfT during 2006/07. A successor, once appointed, will take up this role on the A&RC).

Nigel Gale - National Audit Office (NAO) external audit Director, supported by

Tim Smith - PKF partner and external audit contractor to NAO.

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control which was in place throughout the year and which continues in the Agency, accords with HM Treasury guidance.

Capacity to handle risk

Risk management has been built into the corporate planning systems and has also been incorporated into the Agency's quality processes and Programme Management Office. The Agency fully recognises the principles for public risk management.

VOSA's Directing Board has set the Agency Risk Appetite in-year, and made the following **Statement on Risk Appetite.**

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

Directors are aware that, due to the nature of their duties, certain staff operate in a high risk environment. In these circumstances the Directors will seek to implement policy and procedures that reduce those operational risks as far as possible. In addition, the VOSA Directing Board has a **minimalist** attitude to risk in all matters relating to Financial propriety and to the health and safety of its staff.

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

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

The VOSA Directing Board and senior managers lead risk management in their Directorates, supported by a team of risk management coordinators across programme and project boards, as well as product and delivery groups.

A centre of excellence for risk management to identify and spread best practice functions has been established within the Business Strategy & Corporate Development Directorate. Allied to this, an electronic drop box, called "2-Risky", is available to all staff to facilitate those who might wish to comment on or expose risk issues centrally and anonymously. An in-year audit review of the Risk Management process has commended these working practices.

Risk management guidance is available to all staff on the Agency's intranet site. It explains the Agency's underlying approach to risk management, documents the process and its roles and responsibilities, and identifies the main reporting and escalation routes. Staff on induction courses receive guidance on VOSA's risk management and governance processes.

The risk and control environment

The VOSA Directing Board has established and embedded a Risk Management system, which is reviewed twice during the year by the Audit and Risk Committee. In-year, the Agency's Management Board established a monthly review of the Key Business Risks within the Agency - this is in addition to the Agency's existing Corporate Risk Register which is formally reviewed twice each year. Individual Executive Directors are designated Risk Stewards for each of the corporate risks contained in the Corporate Risk Register and the Key Business Risk Report. Stewards monitor and/or develop controls or risk treatment plans through specific groups led by Risk Owners. Risk Owners report via the monthly Corporate Scorecard Report and papers to the VOSA Directing and Management Boards.

The second tier of risk registers is maintained by senior management Risk Owners via Product Groups; project and programme teams; and operational or policy directorates. Work to ensure that all projects, programmes and Product Groups within this tier have robust risk management processes continues, so that the Agency can effectively identify new or emerging risks and, where possible, agree and put in place risk treatment plans.

There has been considerable progress to ensure VOSA can better manage issues that arise from its substantial commitment to change and improvement. The governance processes for the Change Programme are now channelled through the VOSA Directing Board and its associated Programme Boards, which provide enhanced coordinated focus on both strategic and operational change. Use of PRINCE II and OGC standards is inbuilt, and monitoring of project development against these is an integral element of the Programme Management Office role. Change Risks are monitored and coordinated by a dedicated Risk resource in the Programme Management Office, which feeds a tripartite (Corporate Risk Manager, Head of Internal Audit and Programme Risk Manager) monthly evaluation of the Agency's top risks and the creation of the Key Business Risk Report.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of this is informed by:

- the stewardship statements from my fellow executive directors, stating that their Directorates operate with appropriate compliance and observance of our requirements for Business Planning; Risk Management & Governance; Financial Management (including contingent liabilities and investment appraisal); Audit follow-up; Procurement & Contract Management; Project Management; Business Continuity and emergency planning; Human Resources; Health and Safety; Information Technology; fraud and whistle-blowing
- the work of Internal Audit
- comments made by the external auditors in the ISA260 report and other reports; ad hoc commissioned reports from both external consultants and internal review groups and, most crucially,
- the regular monthly performance reports from IT Partners and VOSA executive managers who have responsibility for the development and maintenance of the internal control framework and, critically, reporting to the VOSA Management and Directing Boards, achievement and associated risks and issues regarding : Secretary Of State Targets; operational performance; quality and improvement; Balanced Scorecards; Health and Safety; Project and Programme progress, and Finance and HR performance reporting.

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

The VOSA Directing Board's main purpose may be described as shaping the future of the Agency and managing both the delivery of its annual Business Plan and its corporate risks. To achieve this purpose, it meets as a collective Board through a series of corporate meetings:

- to provide the vision and values for the Agency, and agreeing the strategies and initiatives for developing and improving the business to ensure stakeholder outcomes are met, and
- to give consideration to the Agency's priorities and the allocation of appropriate resources to ensure balanced delivery of the Agency's Business Plan commitments.

The Agency sustains its own internal audit unit. This unit operates to Government Internal Audit Standards. The unit's functions are established by me, as Accounting Officer, in association with the Audit and Risk Committee. The unit operates as an independent and objective appraisal and advice service. Its primary function is to provide an opinion on risk management, internal control and governance arrangements by measuring and evaluating their effectiveness in achieving the Agency's agreed objectives. The Head of Internal Audit has provided the following statement to the DfT Group Internal Audit Opinion to which I fully concur:

I am able to report a ***substantial*** *level of assurance based on the programme of system audits conducted this year. 63% of the system reviews received a substantial assurance rating, with the remaining 37% receiving a partial assurance comment. No systems scored the lowest, nil and/or highest, full. Similarly, the annual Health Check reviews had 60% full or substantial assurance, with 40% partial and none with a nil assurance. (Health Checks are conducted at 20% of the VOSA offices and comprise checks on specific high risk processes areas.)*

This overall opinion is supported by the following considerations:

Risk Management and Corporate Governance: *Both were reviewed under the co-source arrangement. The risk management process was praised for its improvement and received a substantial assurance rating. The Governance review found that many of the good practices set out in the Treasury's Code of Good Practice had been implemented. However, some key processes were not yet in operation at VOSA and the issues are now in discussion for a management action plan.*

Internal Controls including financial control: *Financial Management received a desk top review and was given a substantial assurance. Other reviews covering the MOT automated fee transfer process, assets, fees and charges, and management accounting also received a substantial assurance.*

S Tetlow
Chief Executive and Accounting Officer
10 July 2007

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

I certify that I have audited the financial statements of the Vehicle and Operator Services Agency (VOSA) for the year ended 31 March 2007 under the Government Trading Funds Act 1973. These comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of VOSA, the Chief Executive and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Directors' Report, the unaudited part of the Remuneration Report and the Management Commentary, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In addition, I report to you if VOSA has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects VOSA's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of VOSA's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by VOSA and the Chief Executive as Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to VOSA's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion
In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of VOSA's affairs as at 31 March 2007 and of its deficit for the year then ended
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and
- information given within the Annual Report, which comprises the Directors' Report, Management Commentary and Remuneration Report, is consistent with the financial statements.

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

Report
I have no observations to make on these financial statements.

John Bourn

John Bourn, Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SWIW 9SP
17 July 2007

Annual Accounts

Income and Expenditure account for the year ended 31 March 2007

	Notes	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Income from operations					
Income from activities	2	**146,205**		131,707	
Other operating income	2	**19,342**		20,197	
Total income from operations			**165,547**		151,904
Expenditure					
Staff costs	4	**(86,268)**		(85,671)	
Early retirement scheme costs	13	**(3,367)**		(1,409)	
Depreciation	6	**(8,683)**		(6,330)	
Impairment	6	**(85)**		(124)	
Other operating charges	3	**(86,459)**		(67,675)	
			(184,862)		(161,209)
Operating deficit			**(19,315)**		(9,305)
Interest receivable			**3,825**		4,250
Net deficit on ordinary activities			**(15,490)**		(5,055)
Loss on disposal of Fixed Assets	6		**(154)**		(3)
Interest payable	5a		**(2,870)**		(3,303)
Dividend payable	5b		**0**		0
Retained deficit for the year			**(18,514)**		(8,361)
Retained surplus brought forward			**21,184**		29,545
Retained surplus carried forward			**2,670**		21,184

The income and operating deficit shown above are derived entirely from continuing activities.
The notes on pages 56 to 73 form part of these accounts.

Statement of total recognised gains and losses

	2007 £'000	2006 £'000
Deficit for the financial year	**(18,514)**	(8,361)
Unrealised surplus on revaluation of assets (see Note 6)	**4,353**	3,754
Total recognised losses relating to the year	**(14,161)**	(4,607)

Accounts

Balance Sheet as at 31 March 2007

	Notes	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Tangible assets	6		**124,821**		101,596
Current assets					
Debtors	7	**27,010**		26,177	
Cash in hand and at bank	12	**80,428**		106,783	
		107,438		132,960	
Creditors					
Amounts falling due within one year	8a	**(83,515)**		(81,966)	
Net current assets			**23,923**		50,994
Creditors					
Amounts falling due after more than one year	8b		**(34,168)**		(37,000)
Provision for liabilities and charges	13		**(1,961)**		(1,168)
Net assets			**112,615**		114,422
Financed by:					
Capital and reserves					
Public Dividend Capital	14/15	**28,983**		28,983	
Loans from the Secretary of State	17	**66,391**		54,037	
Revaluation Reserve	14	**14,571**		10,218	
Income and Expenditure account	14	**2,670**		21,184	
			112,615		114,422

S Tetlow
Chief Executive and Accounting Officer
10 July 2007

The notes on pages 56 to 73 form part of these accounts.

Cash flow statement for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Reconciliation of operating deficit to net cash outflow from operating activities			
Operating deficit		**(19,315)**	(9,305)
Depreciation	6	**8,683**	6,330
Impairment	6	**85**	124
Net movement in early retirement provision	13	**793**	992
Increase in debtors before interest	7	**(877)**	(18,596)
(Decrease)/increase in creditors	8a/b	**(7,104)**	20,322
Net cash outflow from operating activities		**(17,735)**	(133)
CASH FLOW STATEMENT			
Net cash outflow from operating activities		**(17,735)**	(133)
Returns on investments and servicing of finance	11a	**999**	995
Capital expenditure	11b	**(23,127)**	(22,670)
Net cash outflow before financing		**(39,863)**	(21,808)
Financing	11c	**13,508**	20,097
Decrease in cash	12	**(26,355)**	(1,711)
Reconciliation of net cash flow to movement in net funds (note 12)			
Decrease in cash in the period		**(26,355)**	(1,711)
Repayment of loan from Secretary of State		**3,978**	2,933
Capital element of finance leases		**14**	170
New loan from Secretary of State issued in year		**(17,500)**	(23,200)
Change in net funds		**(39,863)**	(21,808)
Original maturity loan converted into repayment loan		**0**	(14,246)
Net funds at 1 April		**48,754**	84,808
Net funds at 31 March		**8,891**	48,754

The notes on pages 56 to 73 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2006/07 FReM issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of VOSA for the purpose of giving a true and fair view has been selected. VOSA's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

a. Basis of preparation

The accounts are prepared under the historical cost convention, modified to include the revaluation of tangible fixed assets, in a form directed by the Treasury in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973. They comply with the accounting and disclosure requirements of the Companies Act 1985 as amended, and the accounting standards issued or adopted by the Accounting Standards Board, in so far as those requirements are appropriate.

b. Fixed assets

Land and buildings were brought into the Agency at valuation. These are revalued over a five-year period with approximately one fifth of the estate being valued by an independent valuer each year on a market value for existing use basis. All other assets are revalued annually using indices published by the Office for National Statistics.

The valuations are described in note 6. Surpluses and temporary diminutions on revaluation are taken to the revaluation reserve; permanent diminutions in the value of fixed assets are initially charged against previous revaluation surpluses on such assets with any further diminution in value being charged directly to the income and expenditure account.

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

Profit or loss on disposal of all categories of fixed asset is calculated on the revalued amount.

The minimum level for capitalisation as a tangible fixed asset is £500. Assets purchased in the year, which are in the course of construction, are classified as such (see note 6).

c. Depreciation

Properties

A full year's depreciation is charged in the first year that properties are commissioned and on any revaluation. The depreciation charge is calculated to write down the properties by equal instalments over their estimated useful lives, as follows:

Freehold buildings	17 - 40 years

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

Freehold land is not depreciated.

Other categories

Depreciation is charged from the month of implementation and is calculated to write down the assets on a straight line basis over their estimated useful lives, as follows:

Plant, equipment and vehicles	5 - 10 years
Leased equipment	Over the life of lease
Computer hardware	3 years
Bespoke computer software	2 - 10 years

Assets in the course of construction are not depreciated until commissioned.

d. Leasing

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease, with an equivalent liability categorised as appropriate under creditors due, within and after more than one year.

The interest element of the rental obligations is charged to the income and expenditure account over the period of the lease.

Operating lease rentals/incentives are charged/credited to the income and expenditure account on a straight line basis over the lease term.

e. Research and Development

Expenditure incurred on pure and applied research is treated as an operating charge in the year in which it is incurred.

Development costs in respect of capital projects are capitalised within fixed assets as assets in course of construction, to the extent that future economic benefits are expected to flow from these assets.

f. Pension Scheme and Early Retirement Scheme

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) in respect of their pensions. The PCSPS is an unfunded, multi-employer, defined benefit scheme but VOSA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation **(www.civilservice-pensions.gov.uk)**. Payment is made by VOSA into the Consolidated Fund of such sums to cover the accruing liabilities of the Treasury in respect of superannuation benefits for persons who have been employed in the funded operations, and in respect of the administrative expenses attributable to the liabilities and their discharge.

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

g. Value Added Tax

VOSA is not separately registered for Value Added Tax (VAT). VAT is accounted for centrally by DfT. Through the DfT registration, under specific Treasury Direction, VOSA recovers input VAT on certain contracted out services. Income and expenditure are shown net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised within additions to fixed assets.

h. Income recognition

Income for applications for operator licences, the granting of licences and the registration of bus routes is recognised at the time of application, grant etc. For all testing activities, income is recognised at the time a test is performed. For all vehicle disc and continuation fees, income is apportioned equally over the length of the licence, dependent on whether the operator has chosen to take up the option of a 1 or 5 year payment basis. For all other goods and services, income is recognised at the point of sale. Fees received in advance for which tests have yet to be performed, or licences issued at the balance sheet date, are shown as creditors.

i. Central funding

Funds received from Central Government budgets or other Departmental sources are released to the income and expenditure account in-year against expenditure incurred, or in the case of capitalised assets, amortised over the useful economic life of the asset.

j. Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

2. Income and surplus/(deficit) on activities

The following information is produced for Fees and Charges purposes and does not constitute segmental reporting under Statement of Standard Accounting Practice 25. Income represents the revenue received for services provided by VOSA. All activities, with the exception of a small element of Single Vehicle Approval work (included within Testing), were carried out in the United Kingdom.

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

	2006/07		2005/06		Cumulative	
	Income	Surplus/ (Deficit)	Income	Surplus/ (Deficit)	Income	Surplus/ (Deficit)
Activity	£'000	£'000	£'000	£'000	£'000	£'000
Testing	61,695	(454)	57,616	1,751	588,885	(6,946)
Administration of MOT testing scheme and standards control	38,773	(17,020)	35,424	(5,860)	290,753	28,639
Enforcement work	31,007	1,542	24,794	(1,569)	295,464	(9,924)
Licensing & Compliance	14,730	(1,033)	13,873	(1,272)	52,121	(1,333)
Total	146,205	(16,965)	131,707	(6,950)	1,227,223	10,436

The (deficit)/surplus is stated after charging £660,000 (2005/06 £200,000) being the amortisation of early retirement costs. Additionally, the MOT scheme bears the cost of the MOT Computerisation project.

The cumulative position shows the scheme performance for the schemes operated by what was VI since it was established as a Trading Fund on 1 April 1991. Cumulative position is not shown on the schemes operated by the TAN division of DfT as prior years were accounted for in the DfT Annual Accounts.

Other operating income

Other operating income relates predominantly to funding received to enable VOSA to carry out projects and policy objectives that are assigned to it by DfT. This is included within the surplus/(deficit) shown above, but is separately shown on the face of the Income and Expenditure Account.

3. Other operating charges

The major constituent parts of other operating charges are as follows:

	2006/07 £'000	2005/06 £'000
Hire of plant and machinery	**284**	242
Rent	**3,040**	3,504
Rates	**2,431**	2,238
Estate running and maintenance costs	**6,828**	5,888
Equipment maintenance costs	**1,905**	1,986
Postage and stationery	**2,027**	3,162
Travel and subsistence	**6,866**	7,160
Telecommunication costs	**2,005**	1,543
Computing	**50,650***	30,069
Legal and banking	**1,504**	1,140
Training	**513**	595
Advertising	**517**	958
Audit fee - audit services	**52**	50
Rental income	**(1,066)**	(890)
Other	**8,903**	10,030
Total of other operating charges	**86,459**	67,675

* Includes a full year cost for volume-based payments in relation to the computerised service for MOT testing and administration which was completed on 29 March 2006.

4. Staff costs

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

	2006/07 £'000	2005/06 £'000
Wages and salaries	**63,574**	64,900
Agency staff & consultants	**5,848**	4,615
Social Security costs	**4,960**	4,860
Other pension costs	**11,886**	11,296
Total staff costs	**86,268**	85,671
Traffic Commissioners & Deputy Traffic Commissioners	**1,147**	1,493

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

For 2006/07, employer contributions of £11,836,000 were payable to the PCSPS (2005/06 £11,248,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005/06 were between 16.2% and 24.6%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2007/08, the salary bands will be revised but the rates will remain the same. Employees can opt to open a Partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £50,000 (2005/06 £48,000) were paid to one or more of a panel of four appointed stakeholder pension providers.

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

VOSA Pay Level	Broad category of staff in band	**2006/07 Number**	2005/06 Number
1	Handypersons	**31**	34
2	Testers, Assistant Administrative Officers	**219**	258
3	Vehicle Inspectors, Administrative Officers, Apprentices	**957**	1,016
4/5	Vehicle and Traffic Examiners, Executive Officers	**891**	911
6	Senior Vehicle Examiners, Senior Traffic Examiners, Higher Executive Officers	**326**	321
7	Area and Regional Managers, Senior Executive Officers	**99**	93
8/9	Senior Management	**45**	43
10	Directors	**6**	4
	Senior Civil Servants	**4**	4
	Average number of employees	**2,578**	2,684
	Average number of Traffic Commissioners and Deputy Traffic Commissioners support (shown in man years)	**10**	10
	Agency and Consultancy support (shown in man years)	**139**	128*
	Secondments inward (shown in man years)	**2**	3
	Secondments outward (shown in man years)	**(5)**	(6)

* The Agency and Consultancy support figure for 2005/06 of 128 has been re-stated, following a detailed review of the calculation.

5. Interest and dividend payable

a. Interest payable

	2006/07 £'000	2005/06 £'000
On replacement vesting loan	**640**	1,478
On loan issued in 1996 - 1997	**50**	55
On loans issued in 2000 - 2001	**0**	14
On loans issued in 2003 - 2004	**703**	762
On loans issued in 2004 - 2005	**244**	262
On loans issued in 2005 - 2006	**980**	470
In lieu of dividend on Public Dividend Capital in respect of current year	**252**	252
Interest payable to the Secretary of State	**2,869**	3,293
Interest payable on finance lease	**1**	10
Total interest payable	**2,870**	3,303

When the VI Trading Fund was established in 1991, the opening Balance Sheet had more Public Dividend Capital than Long Term Loan. The normal gearing for a trading fund opening balance sheet is an equal proportion of Public Dividend Capital and Long Term Loan. The Trading Fund agreed to pay the Treasury £252,000 each year to cover interest foregone on the loan, which has continued in VOSA.

b. Dividend payable

VOSA's average rate of return on capital to March 2007 was 0.7% against the financial target of an average 3.5%, as stated in Annex A on page 74 of the Annual Report. A dividend is payable from this target. This dividend is limited to the annual average target of 3.5%.

	2006/07 £'000	2005/06 £'000
Calculated level of return on average assets at 3.5%	**3,973**	3,770
Interest paid to the Secretary of State	**(2,869)**	(3,293)
Loan Capital repayment	**(3,978)**	(2,933)
Dividend payable	**(2,874)**	(2,456)

The calculated level of return to the Treasury is £3,973,000, based on the target average return of 3.5%. As the interest paid on long-term loans of £2,869,000 and the capital repayment in-year of £3,978,000 total more than the calculated level of return, no dividend is payable in respect of the 2006/07 financial year.

6. Tangible fixed assets

	Freehold Land and Buildings	Long Leasehold Land and Buildings (>50 yrs)	Short Leasehold Land and Buildings	Plant and Equipment	Vehicles	Finance Leased Equipment	Computer Equipment	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation									
At 1 April 2006	102,048	12,728	3,763	22,187	4,708	900	24,193	15,003	185,530
Additions	2,190	83	101	3,243	607	0	619	21,038	27,881
Disposals	0	0	0	(1,708)	(27)	0	0	0	(1,735)
Reclassification	9,422	2,298	378	132	0	0	7,118	(19,348)	0
Revaluation	4,338	0	0	(27)	33	0	(134)	0	4,210
At 31 March 2007	117,998	15,109	4,242	23,827	5,321	900	31,796	16,693	215,886
Accumulated depreciation									
At 1 April 2006	39,040	1,264	1,304	15,067	3,245	900	23,114	0	83,934
Charge for year	2,288	243	421	2,880	667	0	2,184	0	8,683
Disposals	0	0	0	(1,470)	(24)	0	0	0	(1,494)
Reclassification	0	(9)	9	0	0	0	0	0	0
Revaluation depreciation	1	0	0	(5)	(5)	0	(49)	0	(58)
At 31 March 2007	41,329	1,498	1,734	16,472	3,883	900	25,249	0	91,065
Net Book Value At 31 March 2007	**76,669**	**13,611**	**2,508**	**7,355**	**1,438**	**0**	**6,547**	**16,693**	**124,821**
At 1 April 2006	63,008	11,464	2,459	7,120	1,463	0	1,079	15,003	101,596

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

Twenty percent of VOSA's land and buildings were valued at 12 December 2006 by GVA Grimley on the basis of market value for existing use in accordance with RICS guidance.

All properties were occupied by VOSA during the year.

Accounts

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

The valuation of freehold properties has produced an upward valuation and this has been credited directly to the revaluation reserve.

During the detailed review of the valuations in respect of leasehold properties, we have identified that the basis followed by our valuer, although in line with RICS guidance, is not entirely consistent with the basis used by previous valuers. This has resulted in valuations which are not felt to reflect the value of the properties to the organisation and this is addressed below.

The valuation of leasehold properties has resulted in a downward valuation. This fall in value effectively means that the expenditure incurred on the four properties of £1,467,000 since the last valuation has added no value to the property. The FReM requires the results of valuations to be reflected in the financial statements as either an adjustment to the revaluation reserve or as an 'in-year' charge to the income and expenditure account, dependent on whether the downward valuation is considered to be of a temporary or permanent nature.

These valuations have not been accounted for under the 'true and fair' override. This is on the basis that accounting for the valuation would result in the costs incurred not being matched with the benefits realised and, as a result, the financial statements would not give a true and fair view. The impact of this is that the book value of these properties of £2,259,000, including improvements made in the last four years of £1,467,000, has been retained in the financial statements with the fall in value of £1,279,000 not being recognised. Had this adjustment been considered of a permanent nature, the impact would have been an increase in the deficit in the year of £1,279,000 and a fall in net assets of the same amount.

In order to address the issue concerning leasehold property valuations, it has been agreed that a working group will be established. This will seek expert third party advice which will be used as the basis for issuing instructions to valuers in future years to ensure that the valuers fully understand the issues relating to the properties and undertake the valuations on a consistent basis.

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

The net surplus arising in the year is £4,268,000 (2006 £3,630,000 surplus), of which an amount of £4,353,000 (2006 £3,754,000) has been credited to the revaluation reserve. The deficit of £85,000 on computing equipment (2006 £124,000) has been charged to the income and expenditure account.

Assets in the category of vehicles with the net book value of £3,000 were sold for £8,000 and assets in the category of plant and equipment with a net book value of £238,000 were sold for £79,000. The net loss of £154,000 has been treated as an exceptional item on the income and expenditure account.

7. Debtors

a. Amounts falling due within one year

	31 March 2007 £'000	31 March 2006 £'000
Trade debtors	**1,575**	3,445
Other debtors	**4,733**	2,668
Loans to staff	**127**	160
Prepayments and accrued income	**4,835**	4,935
Sub total	**11,270**	11,208
Accrued interest	**300**	344
Total falling due within one year	**11,570**	11,552
Amounts falling due after more than one year:		
Prepayments and accrued income	**15,440**	14,625
Total debtors	**27,010**	26,177

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

b. Intra-Government Debtor Balances

	31 March 2007 £'000	31 March 2006 £'000
Balances with other Central Government bodies	**5,454**	3,901*
Balances with Local Authorities	**13**	83
Balances with Public Corporations and Trading Funds	**283**	680
Balances with bodies external to Government	**21,260**	21,513*
Total	**27,010**	26,177

* The 2006 balances have been amended due to the correction of the classification of totals within other Central Government bodies and bodies external to Government.

8. Creditors

a. Amounts falling due within one year:

	31 March 2007 £'000	31 March 2006 £'000
Fees in advance	**25,509**	28,783
Other creditors	**31,761**	25,317
Accruals and deferred income	**15,744**	23,186
Sub total	**73,014**	77,286
Capital accruals	**5,355**	688
Long term loan due within one year	**5,146**	3,978
Finance lease due within one year	**0**	14
Total creditors	**83,515**	81,966

Included within other creditors is an amount of £17,990,000 (2005/06 £19,879,000) in respect of funding received from DfT for various projects. Monies are received to cover the entire cost of the project and these are credited to the Income and Expenditure Account to match the expenditure incurred, or amortised over the useful lives of assets acquired for use within the project. However, as the funding is allocated to projects and not assets, no specific capital grant reserve is required.

b. Amounts falling due after more than one year:

	31 March 2007 £'000	31 March 2006 £'000
Total creditors falling due after one year	**34,168**	37,000

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

c. Intra-Government Creditor Balances

	31 March 2007		31 March 2006	
	Creditors due within 1 year £'000	Creditors due after 1 year £'000	Creditors due within 1 year £'000	Creditors due after 1 year £'000
Balances with other Central Government bodies	**23,135**	**0**	25,636	0
Balances with bodies external to Government	**60,380**	**34,168**	56,330	37,000
Total	**83,515**	**34,168**	81,966	37,000

9. Finance leases

As at 31 March 2007 there were no obligations under finance lease agreements.

	31 March 2007 £'000	31 March 2006 £'000
Within one year	**0**	14
Total	**0**	14

10. Average return on capital

The average return on net assets over the period 1 April 2003 to 31 March 2007 was 0.7%. This compares with the target, as stated in Annex A on page 74 of the Annual Report, of an average of at least 3.5% over the period 1 April 2003 to 31 March 2008. See the Management Commentary on page 31 of this report for a more detailed explanation of the average ROC.

11. Notes to the cash flow statement

	2007 £'000	2006 £'000
a. Return on investments and servicing of finance		
Interest receivable in year	**3,825**	4,250
Interest accrued at 1 April	**344**	392
Interest accrued at 31 March	**(300)**	(344)
Interest received in year	**3,869**	4,298
Interest paid in year	**(2,870)**	(3,303)
Net interest received	**999**	995

	2007 £'000	2006 £'000
b. Capital expenditure		
Fixed asset additions	**(27,881)**	(22,818)
Capital creditors at 1 April	**(688)**	(559)
Capital creditors at 31 March	**5,355**	688
Payments to acquire fixed assets	**(23,214)**	(22,689)
Receipts from sale of fixed assets	**87**	19
Net payments to acquire fixed assets	**(23,127)**	(22,670)

	2007 £'000	2006 £'000
c. Financing		
Repayment of loan from Secretary of State	**(3,978)**	(2,933)
New loan from Secretary of State - note 17	**17,500**	23,200
Capital repayment of finance lease	**(14)**	(170)
Net financing	**13,508**	20,097

12. Analysis of changes in net funds

	At 1 April 2006 £'000	Cash Flow £'000	Other Changes £'000	**At 31 March 2007 £'000**
Cash in hand, and at bank	**106,783**	(26,355)	0	**80,428**
Loans due within one year	**(3,978)**	3,978	(5,146)	**(5,146)**
Loans due after one year	**(54,037)**	(17,500)	5,146	**(66,391)**
Finance lease due within one year	**(14)**	14	0	**0**
Total	**48,754**	(39,863)	0	**8,891**

13. Provision for liabilities and charges

	Early Retirement Total Costs £'000
At 1 April 2006	**1,168**
Provision in year	**3,367**
Payments during the year	**(2,574)**
At 31 March 2007	**1,961**

Under VOSA's Early Retirement scheme, an additional provision of £2,749,000 was made in-year (2005/06 £1,409,000) for retirements or inflationary pension increases. An amount of £1,956,000 (2005/06 £417,000) was transferred from the provision to fund pensions and related benefits payment. An additional £618,000 has been provided for and paid in respect of 42 employees leaving VOSA under Early Severance terms and conditions. Fourteen people voluntarily retired early during 2006/07 on ill-health grounds, with no additional accrued pension liabilities in the year.

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

	Public Dividend Capital £'000	Loans from the Secretary of State £'000	Revaluation Reserve £'000	Income and Expenditure Account £'000	**Total £'000**
Government funds at 1 April 2006	28,983	54,037	10,218	21,184	**114,422**
Deficit for the year	0	0	0	(18,514)	**(18,514)**
Surplus on asset revaluation	0	0	4,353	0	**4,353**
New loans vested in year	0	17,500	0	0	**17,500**
Loan repaid in year	0	0	0	0	**0**
Transfer to Short Term Creditors	0	(5,146)	0	0	**(5,146)**
Total surpluses and deficits recognised since last annual report	0	12,354	4,353	(18,514)	**(1,807)**
Government funds at 31 March 2007	**28,983**	**66,391**	**14,571**	**2,670**	**112,615**

15. Public Dividend Capital

	2007 £'000	2006 £'000
As at 1 April	**28,983**	28,983
As at 31 March	**28,983**	28,983

Public Dividend Capital (PDC) of £19,100,000 was issued to the Trading Fund on 1 April 1991. This represented 57% of the value of the assets vested at that date. In 1996/97, additional PDC of £1,231,000 was issued. This represented 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate. Additional PDC was issued of £8,652,000, being 50% of the vesting capital of the new Trading Fund Order upon the merger of TAN and VI on 1 April 2003. The total PDC issued at 31 March 2007 is £28,983,000.

16. Financial instruments

VOSA financial instruments comprise principally of loans from the Secretary of State, cash and various other items that arise directly from its trading operations such as trade debtors, fees in advance and other creditors. VOSA manages liquidity risk within the framework of operating as a trading fund within DfT, such that income is generated sufficient to meet expenditure on ongoing activities. Additional funding requirements arising from new initiatives, etc. being placed on VOSA are sought from DfT prior to any expenditure being committed.

a. Interest rate risk

VOSA finances its operations through the loans from the Secretary of State (for which detailed disclosure can be found in note 17).

b. Foreign currency risk

VOSA has negligible exposure to foreign currency risk arising from activities undertaken within the European Union. What risk exists is managed by holding a Euro currency bank account.

c. Financial rate risk profile of financial assets and financial liabilities

i. Financial assets

The only financial asset held by VOSA, other than debtors, is its cash balance. The balance is held in short-term, interest-bearing accounts and a significant part of it is held in the account at the Paymaster General's Office.

ii. Financial liabilities

The only significant liabilities held by VOSA, other than short term creditors and fees in advance, were the loans from the Secretary of State. The maturity profile is shown below:

	31 March 2007 £'000	31 March 2006 £'000
In one year or less, or on demand	**5,146**	3,978
In more than one year but less than two years	**5,146**	3,978
In more than two years but no more than five years	**15,436**	11,935
In more than five years	**45,809**	38,124
Total	**71,537**	58,015

The detail regarding the interest rates of the specific loans can be found in note 17.

The above disclosures highlight how VOSA has structured its financial liabilities in order to provide both adequate and flexible financing.

17. Loans from the Secretary of State

Loans issued prior to 1 April 2003 were issued to the VI Trading Fund and these loans were transferred into VOSA. Loans issued after this date have been issued to the VOSA Trading Fund.

	Long-Term Repayment Due	
Loans outstanding at 31 March 2007 comprise:	Within one year (included in Creditors) £'000	After one year (included in Capital & Reserves) £'000
Replacement vesting loan issued in 2006/2007 20 year repayment loan at 4.55%	712	12,821
Loan issued in 1996/1997 20 year repayment at 8.25% interest	62	492
Loan issued in 2003/2004 15 year repayment at 4.35% interest	581	5,811
Loan issued in 2003/2004 15 year repayment at 4.9% interest	677	7,107
Loan issued in 2004/2005 15 year repayment at 4.6% interest	400	4,600
Loan issued in 2005/2006 15 year repayment at 4.4% interest	880	10,560
Loan issued in 2005/2006 15 year repayment at 4.5% interest	667	8,667
Loan issued in 2006/2007 15 year repayment at 5.15% interest	1,167	16,333
Total of maturity and repayable loans	**5,146**	**66,391**

A 15-year maturity loan of £14,246,000 at 10.375% was issued to the Trading Fund from the Department of Transport when it became a Trading Fund on 1 April 1991. This represented 43% of the value of the assets vested at that date. This loan converted into a 20-year repayment loan at 4.55% in the 2005/06 financial year.

In 1996/97, a 20-year repayment loan of £1,230,000 at 8.25% was issued. This represents 50% of the valuation placed on seven properties vested on 1 April 1996, under the recommendations of the Efficiency Scrutiny of the Management of the Government's Civil Estate.

During 2003/04, on the merger of VI and TAN, a 15-year repayment loan of £8,653,000 at 4.35% was issued, representing 50% of the value of net assets vested in VOSA when it was formed on 1 April 2003.

During 2003/04, a 15-year repayment loan of £10,000,000 at 4.9% was provided to enable the commencement of a programme to refurbish the testing station estate of VOSA.

During 2004/05, a 15-year repayment loan of £6,000,000 at 4.6% was provided to develop a Commercial Customer Portal to facilitate the provision of e-enabled services for all commercial customers of the DVO Agencies.

During 2005/06, two 15-year repayment loans were issued at 4.4%, a loan of £7,500,000 was provided to further the refurbishment of the VOSA estate and a loan of £5,700,000 for the continuation of work on the Commercial Customer Portal to facilitate the provision of e-enabled services for all commercial customers of the DVO Agencies. A 15-year repayment loan of £10,000,000 at 4.5% was issued for estate improvements at the end of the year.

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

All loans are unsecured.

18. Capital commitments

There were capital commitments of £11,864,325 relating to computer system development and Estates Modernisation due within one year. There were no capital commitments at the end of the 2005/06 financial year.

19. Other commitments

As at 31 March 2007, VOSA had annual commitments under operating leases as follows:

	2007 £'000 Land and Buildings	**2007 £'000 Other**	2006 £'000 Land and Buildings	2006 £'000 Other
Expiry date:				
Within one year	**979**	0	1,205	0
Between one and five years	**1,051**	0	1,304	0
After more than five years	**951**	9,295	560	9,284
Total	**2,981**	9,295	3,069	9,284

20. Related party disclosures

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

In addition, VOSA has had a small number of transactions with other Government Departments and other central government bodies. Most of these transactions have been with the Treasury Solicitors Department.

None of the Directing Board members, key managerial staff or other related parties, has undertaken any material transactions with VOSA during the year.

21. Private Finance Initiative

In February 2000 a contract, under the Private Finance Initiative (PFI), was entered into with Siemens Business Services (SBS), for the provision of a computerised service for MOT testing and administration.

Under the terms of the contract, costs are payable by either party as a result of default of their obligations or voluntary break of the contract before the official termination date. These termination costs will vary dependent on the period of the contract that has expired.

22. Contingent liabilities

There were no contingent liabilities at 31 March 2007.

23. Post balance sheet events

There have been no events since the end of the financial year which would affect the understanding of these financial statements.

In response to the Davidson Review of the Implementation of European Legislation, the Government undertook to reflect upon the frequency of MOT testing and other matters. VOSA's mid-term plans will respond to that undertaking and any consequential changes to regulations. There is no known impact upon the balance sheet as at 31 March 2007.

Annex A

Treasury Minute setting VOSA's further financial objectives:

Vehicle and Operator Services Agency

Setting of further financial objectives for the period 1 April 2003 to 31 March 2008:

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

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

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

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

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

2. A trading fund for VOSA was established on 1 April 2003 under VOSA Trading Fund Order 2003 (SI 2003 No. 942).

3. The Secretary of State for Transport, being the responsible Minister for the purposes of section 4(1)(a) of the 1973 Act, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by VOSA for the period from 1 April 2003 to 31 March 2008 shall be to achieve a return, averaged over the period as a whole, of at least 3.5 per cent in the form of a surplus on ordinary activities after the recognition of interest receivable, but before interest and dividends payable, expressed as a percentage of average capital employed. Capital employed shall equate to the capital and reserves, i.e. the Public Dividend Capital, long-term element of Exchequer loans, and reserves.

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

(Treasury Minute dated 11 March 2004)

Glossary

AE	Authorised Examiner	LGV	Light Goods Vehicle
ANPR	Automatic Number Plate Recognition	LHD	Left Hand Drive (vehicle)
BPR	Business Process Re-engineering	MOD	Ministry of Defence
BTEC	Business and Technical Education Council	MORI	Market and Opinion Research International
CPC	Certificate of Professional Competence	MOT	Annual statutory test for cars and motorcycles
DfT	Department for Transport	NT	Nominated Tester
Digitach	Digital Tachograph(s)	OCRS	Operator Compliance Risk Score
DSA	Driving Standards Agency	OSS	Operator Self-Service
DVLA	Driver and Vehicle Licensing Agency	PCE	Post-Collision Examination
DVO	Driver, Vehicle and Operator Group	PSV	Public Service Vehicle
ECR	Euro Contrôle Route	PtS	Power to Stop
ECWVTA	EC Whole Vehicle Type Approval	RIU	Regional Intelligence Unit
EVL	Electronic Vehicle Licensing	SAU	Strategic Analysis Unit
EU	European Union	SSC	Shared Services Centre
GFPD	Graduated Fixed Penalties & Deposits	SSDL	Safety, Service Delivery and Logistics (division of DfT)
HA	Highways Agency	TC	Traffic Commissioner
HGV	Heavy Goods Vehicle	TE	Traffic Examiner
HGVTS	Heavy Goods Vehicle Testing Station	VCA	Vehicle Certification Agency
HR	Human Resources	VE	Vehicle Examiner
H&S	Health and Safety	VfM	Value for Money
IDELSY	Initiative for Diagnosis of Electronic Systems	VIC	Vehicle Identity Check
IiP	Investors in People	VIPER	Vehicle Identification and Pre-selection Enforcement Resource
ISO	International Organisation for Standardisation	VOSA	Vehicle & Operator Services Agency
KSI	Killed or Seriously Injured	WIMS	Weigh in Motion Sensor
LEZ	Low Emission Zone (London)		

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