4.5 DVLA Business Account for 2010-11

Statement of comprehensive income for the year ended 31 March 2011

	Note	2010-11 £000	2000-11 £000	2009-10 £000	2009-10 £000
Income from operations					
Income from the public		**472,192**		461,192	
Other operating income (Service Level Agreements)		**185,178**		233,101	
Total income from operations	2		**657,370**		694,293
Expenditure					
Operating costs	4	**(328,125)**		(355,186)	
Staff costs	3	**(160,035)**		(165,661)	
Depreciation, amortisation & impairment	7	**(27,186)**		(26,702)	
Less Government grant release	7	**6,878**		5,490	
Total operating expenditure	2		**(508,468)**		(542,059)
Operating surplus			**148,902**		152,234
Finance income	2 & 5	**319**		301	
Finance costs	2 & 5	**(1,851)**		(3,403)	
Net finance costs			**(1,532)**		(3,102)
Surplus payable to Consolidated Fund	2		**(116,566)**		(108,157)
Dividend payable	6		**(6,840)**		(5,903)
Retained surplus for the year	2		**23,964**		35,072
Other comprehensive income					
Net gain on revaluation of property, plant and equipment	7		**4,409**		4,393
Net gain on revaluation of intangible assets	8		**2,508**		1,775
Other comprehensive income for the year			**6,917**		6,168
Total comprehensive income for the year			**30,881**		41,240

All income and expenditure are derived from continuing operations. Notes forming part of these accounts appear on **pages 59 to 91**.

Statement of financial position as at 31 March 2011

	Note	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Non-current assets				
Property, plant and equipment	7	**86,054**	87,382	85,104
Intangible assets	8	**95,319**	95,203	87,149
Trade and other receivables due after more than one year	9	**5,139**	8,014	3,833
Total non-current assets		**186,512**	190,599	176,086
Current assets				
Trade and other receivables	9	**63,465**	67,559	58,838
Cash and cash equivalents	10	**65,676**	60,687	50,579
Total current assets		**129,141**	128,246	109,417
Total assets		**315,653**	318,845	285,503
Current liabilities				
Trade and other payables due within one year	11	**(52,836)**	(82,011)	(83,390)
Provisions for liabilities and charges	13	**(2,733)**	(3,223)	(3,141)
Total current liabilities		**(55,569)**	(85,234)	(86,531)
Total assets less current liabilities		**260,084**	233,611	198,972
Non-current liabilities				
Trade and other payables due after more than one year	11	**(49,280)**	(33,793)	(39,938)
Provisions for liabilities and charges	13	**(9,210)**	(12,170)	(11,510)
Total non-current liabilities		**(58,490)**	(45,963)	(51,448)
Net assets		**201,594**	187,648	147,524
Taxpayers' equity				
General fund		**134,118**	110,098	75,026
Revaluation reserve		**40,230**	33,313	27,145
Government grant reserve		**27,246**	25,189	26,305
Public dividend capital	23	**–**	19,048	19,048
Total taxpayers' equity		**201,594**	187,648	147,524

Notes forming part of the accounts appear on **pages 59 to 91**.

Simon Tse
Accounting Officer and Chief Executive DVLA
22 June 2011

Statement of cash flows for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Cash flows from operating activities			
Retained surplus for the year		**23,964**	35,072
Adjustments for non cash items:			
Loss on disposal, depreciation, amortisation & impairment	7	**27,186**	26,702
Government Grant release	7	**(6,878)**	(5,490)
Net financing costs	5	**1,532**	3,102
Decrease/(Increase) in trade and other receivables	9	**6,969**	(12,902)
(Decrease)/increase in trade payables	11	**(30,263)**	499
Auditors remuneration – notional charges	4	**30**	–
Less movements relating to items not passing through the Statement of comprehensive income			
(Use)/creation of provisions	13	**(3,378)**	314
Net cash inflow from operating activities		**19,162**	47,297
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,179)**	(5,660)
Purchase of intangible assets		**(17,153)**	(19,799)
Finance income	5	**319**	301
Proceeds from sale of property, plant and equipment		**5**	–
Net cash outflow from investing activities		**(19,008)**	(25,158)
Cash flows from financing activities			
Government grant received in year		**8,935**	4,374
Finance costs	5	**(1,923)**	(2,975)
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		**(2,177)**	(13,430)
Loan from Department for Transport		**19,048**	–
Repayment of Public Dividend Capital		**(19,048)**	–
Net cash used in financing activities		**4,835**	(12,031)
Net increase in cash and cash equivalents in the period		**4,989**	10,108
Cash and cash equivalents at the beginning of the period	10	**60,687**	50,579
Cash and cash equivalents at the end of the period	10	**65,676**	60,687

Notes forming part of these accounts appear on **pages 59 to 91**.

Statement of changes in taxpayers' equity for the year ended 31 March 2011

	General Fund (i)	Revaluation Reserve (ii)	Government Grant Reserve (iii)	Public Dividend Capital (iv)	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2010	110,098	33,313	25,189	19,048	187,648
Surplus for the year 31 March 2011	23,964	–	–	–	23,964
Repayment of Public Dividend Capital	–	–	–	(19,048)	(19,048)
Non cash charge – auditor's remuneration	30	–	–	–	30
Non cash charge – auditor's remuneration in prior year	26	–	–	–	26
Other Comprehensive Income					
Net gain on revaluation of property, plant and equipment	–	4,409	–	–	4,409
Net gain on revaluation of intangible assets	–	2,508	–	–	2,508
Government grant release	–	–	(6,878)	–	(6,878)
Government grant received in the year	–	–	8,935	–	8,935
Total Other Comprehensive Income	–	6,917	2,057	–	8,974
Total Comprehensive Income for 2010-11	24,020	6,917	2,057	(19,048)	13,946
Balance at 31 March 2011	134,118	40,230	27,246	–	201,594

Statement of changes in taxpayers' equity for the year ended 31 March 2010

	General Fund (i)	Revaluation Reserve (ii)	Government Grant Reserve (iii)	Public Dividend Capital (iv)	Total Reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2009	75,026	27,145	26,305	19,048	147,524
Surplus for the year 31 March 2010	35,072	–	–	–	35,072
Other Comprehensive Income					
Net gain on revaluation of property, plant and equipment	–	4,393	–	–	4,393
Net gain on revaluation of intangible assets	–	1,775	–	–	1,775
Government grant release	–	–	(5,490)	–	(5,490)
Government grant received in the year	–	–	4,374	–	4,374
Total Other Comprehensive Income	–	6,168	(1,116)	–	5,052
Total Comprehensive Income for 2009-10	35,072	6,168	(1,116)	–	40,124
Balance at 31 March 2010	110,098	33,313	25,189	19,048	187,648

(i) The movement in the General Fund reflects the surplus for the year plus adjustments relating to notional audit fees for 2010-11 and to reflect the change in accounting treatment in 2010-11 of the fees from 2009-10

(ii) The Revaluation Reserve reflects the accumulated revaluation gains relating to non-current assets. The amount of the revaluation reserve that relates to intangible assets at 31 March 2011 is £10.8 million (31 March 2010: £8.3 million)

(iii) The Government Grant Reserve movement reflects funding received from other government bodies in relation to the purchase of non-current assets

(iv) The Public Dividend Capital represents deemed capital when the Agency was set up as Trading Fund. This was repaid in 2010-11 prior to the Agency's Trading Fund status being revoked.

Notes to the accounts

Note 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency's Business Accounts for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

New standards and interpretations adopted early

None

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2011, and have not been applied in preparing these financial statements.

IFRS 7 Financial Instruments Disclosures explains the reason for providing qualitative and quantitative disclosures on risks and the benefits to users of financial statements of being able to link the two. Application of this standard is required for reporting periods beginning on or after 1 January 2011. It is planned that IFRS 7 will be applied initially in 2011-2012. The impact of initial application of IFRS 7 is not expected to be significant.

IFRS 9 Financial Instruments, which will replace IAS 39. IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of this standard is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. It is planned that IFRS 9 will be applied initially in 2013-2014. The impact of initial application of IFRS 9 is not expected to be significant.

The 2011-12 FReM has withdrawn the option provided in IAS 20 Accounting for Government Grants to offset grant against the cost of an asset with the result that grant income relating to an asset should be recognised as income as soon as any conditions imposed by the funder have been met. As a result, from 1 April 2011 the Agency will re-classify that portion of Service Level Agreement income that relates to projects in respect of vehicle licensing (previously recognised as government grant) and recognise it as revenue in the Statement of Comprehensive Income. In addition, the result is to remove the funding previously classified as grant in the Government Grant Reserve at 31 March 2011 and apply as income to the General Fund.

The 2011-12 FReM revises the departmental resource accounting boundary to include non-departmental public bodies and other bodies classified to central government by the Office for National Statistics. As a result, from 1 April 2011 the Agency will fall under the Accounting Boundary of the Department for Transport and its accounts will be consolidated with those of the department.

Accounting convention

These financial statements have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets. The financial statements have been prepared in accordance with the revised accounting direction issued by HM Treasury on 22 December 2010. They meet the relevant requirements of the Companies Acts, and of the Statements of Accounting Standards issued and approved by the International Accounting Standards Board. We are not aware of any disclosures or circumstances where these are inappropriate.

The financial statements have been prepared on the going concern basis. The change in the Agency status from Trading Fund to Executive Agency does not affect its ability to remain a going concern.

Operating income

Income from the sale of registration marks is recognised on receipt of payment for fixed price sales and on the fall of the auctioneer's hammer for sales at auction. Uncompleted sales are provided for after 90 days and are written out of sales after twelve months, with the related marks becoming available for resale. Fee income from the assignment, transfer and retention of cherished registration marks is recognised on receipt, when the transaction is processed, as is that from fee-bearing statutory services.

Funding for Vehicle Excise Duty collection and enforcement activities is delivered by volume-related Service Level Agreements rather than grants – managed by Department for Transport on behalf of HM Treasury as the tax recipients.

The following major sources of income – DVLA personalised registrations, sale of anonymised data (vehicle and driver) and tachograph fees – all attract output VAT. The majority of DVLA fee-earning transactions are not subject to VAT.

Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised on an accruals basis. Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs are recognised in profit or loss using the effective interest method.

Taxation

The Agency is not liable to pay Corporation Tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the appropriate expenditure heading, or capitalised if it relates to an asset.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances in both interest and non-interest bearing accounts. The Agency does not have any bank overdrafts.

Non-current assets: property, plant and equipment

The Agency revalues its non-current fixed asset portfolio annually at 31 March each financial year in accordance with the requirements of the Financial Reporting Manual. Land and buildings are revalued every five years on an existing use valuation by appointed chartered surveyors. In the years between full valuations of land and buildings an index-linked revaluation is performed.

Plant and machinery, fixtures and fittings, computer equipment, motor vehicles and office equipment are revalued in accordance with price indices published by the Office of National Statistics (MM17 – Price Index Numbers for Current Cost Accounting). The exception to this is the revaluation of the specialised fit-out of buildings, revalued using an index provided by Colliers International, commercial surveyors, commissioned by the Department for Transport to produce a brief report on the movement in land values and property values for the period 1 April 2010 to 31 March 2011.

Surpluses and deficits arising on revaluation are taken to the Revaluation Reserve. Where it is not possible for any such deficit to be offset by previous surpluses in the Revaluation Reserve it is charged to revenue as are permanent diminutions in the value of fixed assets. Ownership of the Agency's assets is vested in the Secretary of State.

The Agency's assets are grouped together for the purposes of capitalisation when there is an interdependency of the assets. The minimum level for capitalisation as an individual non-grouped asset is £5,000. Previously this was £1,000.

Non-current assets: intangible assets

The value of licences to operate the Driver and Vehicle systems is capitalised. Software development costs are capitalised, excluding any costs incurred in the planning and design stages of the project, which are clearly defined and separate from the build phase of a project. New expenditure on IT systems development is written off in the period in which it is incurred, unless a beneficial relationship to a future period can be established with reasonable certainty, in which case the charge is capitalised. The Agency reviews its projects and operational software for impairment and revalues its intangible assets annually based on Depreciated Replacement Cost.

The value of the Driver and Vehicle databases, including unallocated vehicle registration marks,

cannot be estimated. The DVLA personalised registrations database is a very large store of possible combinations of alpha-numeric digits and is affected by changes in opinion, taste and judgement. As a result, the potential future sales value is not recognised in the Agency's Statement of financial position, as it cannot be reasonably estimated.

Depreciation and amortisation

Depreciation is provided on intangible and tangible non-current assets from the date they are commissioned into operational service, except for computer equipment, which is provided for at the date of purchase. Depreciation is provided on any revaluation from the date of such revaluation, at rates calculated to write off the cost or valuation (less any estimated residual value) of each asset evenly over its expected useful life. The estimated useful lives from new of the main categories of non-current assets are:

Plant and machinery	–	3-10 years
IT equipment	–	3 years
Purchased software	–	up to 10 years
Office equipment	–	5 -10 years
Software licences	–	3 -15 years
Fixtures and fittings	–	5 -10 years
Motor Vehicles	–	5 -10 years

The estimated remaining useful lives of buildings at Morriston on 31 March 2011 are 38 years (A Block) and 23 years (all others) with those at Swansea Vale at 34 years.

The estimated useful lives of assets are reviewed regularly and, when necessary, revised. Land (freehold and leasehold) is not depreciated.

Leases

The Agency incurs operating lease rentals which are charged to the Statement of comprehensive income on a straight-line basis over the lease term.

Leases in terms of which the Agency assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Early departure costs

The Agency provides for future annual compensation payments to certain former employees who have taken early retirement. Compensation is payable from the date of retirement until age 60.

The Agency is responsible for 20 per cent of the liability to former employees that took early retirement between 1 October 1994 and 31 March 1996 and met certain criteria. This liability is provided for within the early departure provision. The remaining liability is met centrally by the Civil Superannuation Vote. For departures between April 1996 and March 1997, HM Treasury introduced capping arrangements that limit the central contribution for these departures to a maximum of £99,000 per annum.

The Agency announced a Voluntary Early Retirement (VER) scheme in 2005-06 and a Flexible Early Retirement (FER) scheme in 2009-10.

The Agency is responsible in full for the liability to former employees who take early retirement under the VER and FER schemes and provides for the liability within the Early Departure Costs provision.

Future payments to be made under the Early Departure and Voluntary Retirement schemes are discounted at the HM Treasury advised rate of 2.9 per cent (2009-10: 1.8 per cent).

Tax officers' pensions and compensation payments

The Agency makes payments in relation to costs of former taxation officers employed by local authorities prior to the creation of the Driver and Vehicle Licensing Centre in 1972. Certain individuals remained within the Local Government Pension Scheme. The Agency contributes to the local authorities concerned towards the annual cost of these pensions. The Agency makes compensation payments to 183 other individuals in respect of

loss of emoluments when the Local Taxation Offices closed. A provision has been made for future costs. An actuarial valuation is carried out every three years to determine future liabilities, with the latest valuation effective to 31 March 2013.

Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

Accounting for strategic IT outsourced costs

The strategic IT contractor (IBM) supplies an end-to-end outsourced IT service to DVLA, including the provision of the physical IT equipment. The risks and rewards of ownership of that equipment remain with the contractor and are therefore not capitalised on the DVLA's Statement of financial position. Strategic outsourced costs relating to the equipment are charged to the Statement of comprehensive income in line with the delivery of the service. The financing arrangements mean that a prepayment is set up and discounted over time by 3.5 per cent.

Research and development

We consider our expenditure each year to determine if any is considered as Research and Development. We concluded that nothing falls into this category in the period of this report. Should the Agency incur such costs our accounting policy would be as described.

Expenditure incurred on pure and applied research is treated as an operating charge in the year in which it is incurred. Development expenditure is for the development of specific business systems. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Development costs meeting the criteria for capitalisation are treated as intangible fixed assets and amortised as explained in the intangible non-current asset note. Non-current assets acquired for use in development are depreciated over the expected useful life of the asset.

Private Finance Initiative (PFI) contract for estates

On the 4 April 2005, DVLA entered into a 20-year service concession agreement with Telereal Trillium (formerly Land Securities Trillium). This agreement falls within the scope of IFRIC 12 Service Concession Arrangements and has been set up to provide the following property outsourcing solutions:-

- Building Maintenance
- Office Moves
- Cleaning
- Catering and Vending
- Furniture Repair
- Furniture Replacement
- Grounds Maintenance
- Waste Management and Pest Control

DVLA are invoiced on a monthly basis and this revenue expenditure is recorded as a service charge in the Statement of comprehensive income.

As part of the contract, Telereal Trillium have undertaken a refurbishment of the Swansea HQ site. Where the work is capital in nature (air conditioning, double-glazing, lifts and specialist cabling), the costs have been capitalised on Independent Assessors sign off for each floor as complete and ready for use. The air conditioning, double-glazing and lifts are depreciated over the length of the PFI contract. The cabling is depreciated over its expected useful life of five years.

A PFI creditor has been created to reflect the work capitalised. This creditor is reduced over the life of the contract as payments are made. In accordance with Government Financial Reporting Manual requirements, the interest element of the unitary charge relating to the assets capitalised has been calculated using the actuarial method.

Financial instruments

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are typically cash or rights to receive cash or equity instruments in another entity. Financial liabilities are typically obligations to transfer cash. A contractual right to exchange financial assets or financial liabilities with other entities will also be a financial asset or liability, depending on whether the conditions are potentially favourable or adverse to the reporting entity.

Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents. These are classified as held-to-maturity. The Agency initially recognises these assets on the date that they are originated, and derecognises when the contractual rights to the cashflows from the asset expire.

Trade and other receivables are recognised initially at fair value on the date that they originated. Fair value is usually at the original invoiced amount. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances in both interest and non-interest bearing accounts. The Agency does not have any bank overdrafts.

Non-derivative financial liabilities comprise trade and other payables, obligations under finance leases, obligations under on-balance sheet Private Finance Initiative contract for estates contracts and a loan from the Department for Transport. These are classified as held-to-maturity. The Agency recognises these liabilities initially on the trade date at which the Agency becomes a party to the contractual provisions of the instrument, and derecognises when its contractual obligations are discharged or cancelled or expired. Trade and other payables are recognised initially at fair value. Fair value is usually at the original invoiced amount. Subsequent to initial recognition they are measured at amortised cost.

Impairment of financial assets

The Agency assesses at each balance sheet date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date, and the loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Agency does not hold any derivative financial instruments.

Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of HM Treasury Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

Government grant reserve

Grants received for capital assets are credited to the Government Grant Reserve, which is released to the statement of comprehensive income over the expected useful lives of the relevant assets.

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes.

- Note 14 – Commitments under leases (PACT contract alternative payment mechanism lease)

The critical assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year relate to the estimated useful economic life of intangible assets. These are based on management's judgement of assets of a similar nature and historical trends and are revised where appropriate.

Shared Service Centre

The Department for Transport's Shared Service Centre (SSC) is based in one of DVLA's leased buildings at Swansea Vale. The centre provides a mix of HR, finance, procurement and payroll services to a number of Business Units within the Department for Transport (DfT) and became operational in April 2007.

DVLA recharges DfT for the costs incurred on its behalf in terms of staff, IT services and accommodation, netting these costs in the DVLA accounts to only show the DVLA operational expenditure and separately disclosing the full recharge from the SSC for the services DVLA receives as a customer within operating costs. Staff working at the SSC remain on DVLA contracts of employment but governance arrangements and line management comes under DfT (Centre).

Cash Payable to Consolidated Fund

The 2010-11 Government Financial Reporting Manual introduced the following accounting change – the introduction of Trust statements for revenue collected by an entity that is due to the Consolidated Fund. Vehicle Excise Duty enforcement income is now brought to account in the Agency's Trust Statement and has resulted in a restatement of the Agency's creditors as at 31 March 2010 and 1 April 2009.

Payments to the Consolidated Fund from the Business Accounts represent amounts in excess of costs for DVLA personalised registrations/Cherished Transfer transactions. The income from these transactions is not deemed as due to the Consolidated Fund on receipt.

Note 2. Segmental reporting

2010-11 Operating Segments	Income from the Public		Service Level Agreement (Department for Transport)			Total
	Fees	DVLA personalised registrations	Vehicle Excise Duty Collection	Vehicle Excise Duty Enforcement	Additional Funding	
	£000	£000	£000	£000	£000	£000
Revenue	388,893	83,299	111,103	71,373	2,702	657,370
Expenditure	(310,396)	(12,894)	(111,103)	(71,373)	(2,702)	(508,468)
Surplus payable to the Consolidated Fund	(46,161)	(70,405)	–	–	–	(116,566)
Segment surplus	32,336	–	–	–	–	32,336

Reconciliation of reportable segment revenues & retained surplus

Finance income	319
Finance costs	(1,851)
Dividend payable	(6,840)
Retained surplus for the year	23,964

2009-10 Operating Segments	Income from the Public		Service Level Agreement (Department for Transport)			Total
	Fees	DVLA personalised registrations	Vehicle Excise Duty Collection	Vehicle Excise Duty Enforcement	Additional Funding	
	£000	£000	£000	£000	£000	£000
Revenue	379,161	82,031	127,680	82,436	22,985	694,293
Expenditure	(293,265)	(15,000)	(127,680)	(82,436)	(23,678)	(542,059)
Surplus payable to the Consolidated Fund	(41,126)	(67,031)	–	–	–	(108,157)
Segment surplus	44,770	–	–	–	(693)	44,077

Reconciliation of reportable segment revenues & retained surplus

Finance income	301
Finance costs	(3,403)
Dividend payable	(5,903)
Retained surplus for the year	35,072

The segments used reflect how management information is provided to the Executive Board. An analysis of assets and liabilities by segment is not regularly provided to the Chief Executive or Executive Board.

Note 3. Staff numbers and related costs

Staff costs, excluding staff managed by Department for Transport, consistent with the accounting policies, comprise:

2010-11	Permanently employed staff	Short-term employment contract and agency staff	Total
	£000	£000	£000
Wages and salaries	123,362	6,773	130,135
Social security costs	8,324	204	8,528
Other pension costs	21,101	165	21,266
Voluntary early retirement costs (note 13)	106	–	106
Total	152,893	7,142	160,035

2009-10	Permanently employed staff	Short-term employment contract and agency staff	Total
	£000	£000	£000
Wages and salaries	126,139	5,170	131,309
Social security costs	8,263	205	8,468
Other pension costs	20,618	82	20,700
Voluntary early retirement costs (note 13)	5,184	–	5,184
Total	160,204	5,457	165,661

The staff costs of the permanently employed staff include the non-consolidated pay award, which in 2010-11 amounted to £6,304,000 (2009-10: £6,335,000). The non-consolidated pay is an integral part of the Agency's reward structure. It is used to drive performance – it is not paid to staff who do not achieve satisfactory levels of performance and has to be re-earned each year. The non-consolidated performance pay quantum in total has been built up over a number of years by withholding an element of the pay award agreed with HM Treasury to support the Agency's move to non-consolidated performance payments to individuals which are contractual and pensionable.

DVLA staff working at the Shared Service Centre (SSC) but managed by Department for Transport (DfT) are not included in the above costs for either year as the recharges to DfT for their salaries are excluded from the DVLA Statement of Comprehensive Income and their costs included directly in the DfT accounts.

The Holiday Pay accrual (Employee Benefits IAS 19) at 31 March 2011 is £3,603,403 (31 March 2010: £3,666,409).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but DVLA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2008. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (**www.civilservice-pensions.gov.uk**).

For 2010-11, employers' contributions of £21.3 million were payable to the PCSPS (2009-10: £20.7 million) at one of four rates in the range 16.7 per cent to 24.3 per cent (2009-10: 16.7 per cent to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation.

The salary bands and contribution rates have remained unchanged for 2010-11 and 2011-12. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £220,797 (2009-10: £213,452) were paid to one or more of a panel of 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 per cent to 12.5 per cent (2009-10: 3.0 per cent to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3.0 per cent of pensionable pay. In addition, employer contributions of £15,689, 0.8 per cent (2009-10: £15,287, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £0. Contributions prepaid at that date were £0.

Average number of persons employed

2010-11	Permanent staff (FTEs)	Short-term employment contract and agency staff (FTEs)	Total (FTEs)
Directly employed	5,499	218	5,717
Staff managed by Department for Transport (Shared Service Centre)	255	12	267
Total	5,754	230	5,984

2009-10	Permanent staff (FTEs)	Short-term employment contract and agency staff (FTEs)	Total (FTEs)
Directly employed	5,556	199	5,755
Staff managed by Department for Transport (Shared Service Centre)	249	64	313
Total	5,805	263	6,068

Civil Service and other compensation schemes – exit packages

2010-11 Exit package cost band (£)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
< 10,000	–	6	6
10,000 – 25,000	–	1	1
25,000 – 50,000	–	2	2
Total number of exit packages by type	–	9	9
Total resource cost (£)	–	114,830	114,830

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

During the financial year 2010 -2011, a number of payments were made which were not covered by the Civil Service Compensation Scheme.

These ex-gratia payments were agreed with HM Treasury and are detailed below:

- two payments under £10,000 for termination of employment.

2009-10 Exit package cost band (£)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
< 10,000	–	4	4
10,000 – 25,000	–	4	4
25,000 – 50,000	–	1	1
Total number of exit packages by type	–	9	9
Total resource cost (£)	–	114,296	114,296

During the financial year 2009-10, a number of payments were made which were not covered by the Civil Service Compensation Scheme.

These ex-gratia payments were agreed with HM Treasury and are detailed below:

- Four payments under £10,000 for termination of employment
- One payment between £10,000 and £25,000 for termination of employment
- One payment between £50,000 and £100,000 for termination of employment.

Note 4. Operating costs

	2010-11 £000	2010-11 £000	2009-10 £000	2009-10 £000
Outsourced Services				
ICT Services (IBM)	**120,795**		124,233	
Post Office®	**44,764**		36,152	
Wheelclamping	**17,346**		19,946	
PFI Estates unitary charge	**17,669**		17,860	
Northern Ireland (DVA) (i)	**11,970**		13,181	
Medical practitioners	**11,389**		9,932	
Shared Services (ii)	**4,578**		4,392	
		228,511		225,696
Service delivery				
Postal related expenses	**27,813**		30,488	
Publicity and marketing	**1,547**		13,417	
Non outsourced ICT	**12,175**		13,376	
Stationery and printing	**9,830**		12,842	
Blank cards	**10,142**		10,409	
Credit card charges	**11,710**		10,616	
Maintenance of machinery and vehicles	**4,422**		4,869	
Consultancy	**757**		3,765	
Professional services	**2,484**		1,941	
		80,880		101,723
Accommodation				
Rates	**812**		4,114	
Utilities	**2,361**		4,109	
Rentals under operating leases	**6,705**		6,440	
Estates maintenance	**1,376**		2,903	
Furniture and fittings	**(89)**		1,238	
		11,165		18,804
Staffing				
Travel & subsistence	**2,100**		2,646	
Training	**762**		1,391	
Specialist clothing	**160**		135	
Books and publications	**25**		55	
Recruitment	**57**		(271)	
		3,104		3,956
Other				
Other items	**4,051**		3,246	
Department for Transport	**297**		1,625	
Auditor's remuneration (iii)	**117**		136	
		4,465		5,007
Total Operating costs		**328,125**		355,186

(i) Note that these costs are provided in full detail in the Driver and Vehicle Agency accounts, which can be obtained from Driver and Vehicle Agency Finance, County Hall, Castlerock Road, Coleraine BT51 3HS. The agreement is for DVLA to cover the cost of the provision of services in Northern Ireland for the licensing and registration of vehicles and collection

of Vehicle Excise Duty (VED). This includes the enforcement of non-payment of VED, registration of new and used vehicles, provision of a vehicles enquiry line and sale and transfer of personalised registration marks.

(ii) Department for Transport (DfT) accounts for all Shared Service Centre (SSC) income and costs. Accommodation and IT services remain delivered through DVLA contracts, and DVLA staff working at the SSC, managed by DfT remain on DVLA contracts of employment (see Note 3). DVLA nets off the recharges to DfT prior to disclosure in its accounts so that it presents only its own operating expenditure, showing then the full cost of the invoiced service it receives from the DfT SSC as part of its functional expenditure.

(iii) Auditor's remuneration comprises a cash charge for the statutory audit of the DVLA Business accounts of £87,250 (2009-10: £85,000) along with a notional fee for the statutory audit of the Trust Statement of £30,150 (2009-10: £26,000). The 2009-10 amount included a charge of £25,000 for the audit of the International Financial Reporting Standards conversion.

(iv) The classification of operating costs has been amended from the 2009-10 accounts to improve the transparency of the Agency's operating costs.

Note 5. Finance income/(costs)

	2010-11	2009-10
	£000	£000
Finance Income		
Bank interest	**319**	301
Total finance income	**319**	301
Finance Costs		
Interest on imputed finance lease element of on balance sheet PFI contracts	**(1,882)**	(1,929)
Interest on finance lease liabilities	**(41)**	(1,046)
Unwinding of discount and impact of changes in discount rate on provisions	**72**	(428)
Total finance costs	**(1,851)**	(3,403)
Net finance costs	**(1,532)**	(3,102)

Note 6. Dividends and return on capital employed

	2010-11	2009-10
	£000	£000
3.5% Return on capital employed	**6,840**	5,903
Dividend Payable	**6,840**	5,903

The average return on net assets over the period 1 April 2010 to 31 March 2011 was 16 per cent against the financial target of an average 3.5 per cent. This dividend is limited to the annual average target of 3.5 per cent.

Note 7. Property, plant and equipment

2010-11	Land	Buildings (excl. PFI fit out)	Information Technology	Plant & Machinery	Furniture & Fittings (incl. PFI fit out)	Motor Vehicles	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2010	**4,329**	**59,329**	**48,969**	**10,865**	**45,837**	–	**790**	**170,119**
Additions	–	53	447	1,008	50	64	287	**1,909**
Disposals	–	(134)	(44,873)	(6,471)	(10,551)	–	–	**(62,029)**
Transfer	–	–	228	310	252	–	(790)	**–**
Revaluations	294	3,045	(115)	246	1,231	–	–	**4,701**
At 31 March 2011	**4,623**	**62,293**	**4,656**	**5,958**	**36,819**	**64**	**287**	**114,700**
Depreciation								
At 1 April 2010	**–**	**4,259**	**46,102**	**7,417**	**24,959**	–	–	**82,737**
Charged in year	–	1,704	709	861	3,659	16	–	**6,949**
Disposals	–	(134)	(44,664)	(6,277)	(10,257)	–	–	**(61,332)**
Revaluations	–	–	(43)	94	241	–	–	**292**
At 31 March 2011	**–**	**5,829**	**2,104**	**2,095**	**18,602**	**16**	**–**	**28,646**
Net book value at 31 March 2010	4,329	54,964	2,867	3,448	20,984	–	790	**87,382**
Net book value at 31 March 2011	**4,623**	**56,464**	**2,552**	**3,863**	**18,217**	**48**	**287**	**86,054**
Asset financing								
Owned	4,193	31,312	2,552	3,863	9,175	48	287	**51,430**
On-balance sheet PFI contracts	430	25,152	–	–	9,042	–	–	**34,624**
Net book value at 31 March 2011	**4,623**	**56,464**	**2,552**	**3,863**	**18,217**	**48**	**287**	**86,054**

2009-10	Land	Buildings (excl. PFI fit out)	Information Technology	Plant & Machinery	Furniture & Fittings (incl. PFI fit out)	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2009	4,080	53,927	42,273	8,002	44,747	17	153,046
Additions	–	2,636	1,041	2,775	–	780	7,232
Disposals	–	–	(401)	(77)	(25)	–	(503)
Transfer	–	–	7	2	(2)	(7)	–
Revaluations	249	2,766	6,049	163	1,117	–	10,344
At 31 March 2010	4,329	59,329	48,969	10,865	45,837	790	170,119
Depreciation							
At 1 April 2009	–	2,907	38,833	6,727	19,475	–	67,942
Charged in year	–	1,377	2,115	613	5,223	–	9,328
Disposals	–	–	(400)	(62)	(22)	–	(484)
Revaluations	–	(25)	5,554	139	283	–	5,951
At 31 March 2010	–	4,259	46,102	7,417	24,959	–	82,737
Net book value at 31 March 2009	4,080	51,020	3,440	1,275	25,272	17	85,104
Net book value at 31 March 2010	4,329	55,070	2,867	3,448	20,878	790	87,382
Asset financing							
Owned	3,926	30,089	2,867	3,448	11,246	790	52,366
On-balance sheet PFI contracts	403	24,981	–	–	9,632	–	35,016
Net book value at 31 March 2010	4,329	55,070	2,867	3,448	20,878	790	87,382

Contractual commitments for property plant and equipment are covered by the Private Finance Initiative (PFI) contract and are included in Note 15. There are no commitments for 2010-11 (2009-10: £989,300).

The Agency does not hold any property, plant and equipment assets financed by finance lease other than PFI.

DVLA acquired during 2010-11 a number of vehicles from its sister agency Government Car and Despatch Agency as the most cost effective way of meeting Department for Transport's requirements overall. DVLA has not previously owned its own vehicles and will keep this initiative under close review for the future.

Valuation of Assets

Land and buildings are revalued every five years on an existing use valuation by appointed Chartered Surveyors. It was considered appropriate to undertake a full valuation of the Agency's estates on 31 March 2009 after a four-year interval, prior to the introduction of International Financial Reporting Standards from 1 April 2009, to allow a simple one-stage transition. This coincided with the substantial completion of the estates development and refurbishment programme delivered through the estates Private Finance Initiative (PFI) contract with Telereal Trillium. The valuation of the estates was undertaken principally on an existing use basis. An exception was the valuation by the external valuers of the Felinfach premises at Fforestfach at 31 March 2009 which was undertaken on a Depreciated Replacement Cost basis whereby the component parts will be depreciated over their appropriate lives. This revaluation was carried out by Joseph Funtek BSc (Hons) MRICS from Gerald Eve.

Freehold land was revalued as at 31 March 2010, using the Knight Frank Residential Development Land Index for the fourth quarter of 2009 as at the end of March 2010 the index was not considered to be materially different.

Office property (including PFI office property) was revalued as at 31 March 2011 using data provided by Colliers International, commercial surveyors, commissioned by the Department for Transport to produce a brief report on the movement in land values and property values for the period 1 April 2010 to 31 March 2011.

The index for office property (including PFI office property) was used to revalue the PFI assets and also specific fixtures and fittings assets, which relate to the specialised fit-out of the Richard Ley Development Centre and the contact centre.

The net book value of land includes freehold £3.9 million (2009-10: £3.7 million) and leasehold £0.7 million (2009-10: £0.6 million). (Richard Ley Development Centre £0.2 million (125 year lease) and Fforestfach £0.5 million (999 year lease)). The net book value of buildings relates to DVLA property with PFI buildings/refurbishment having a net book value of £24 million (2009-10: £25.0 million).

During 2010-11 the assets held by Driver and Vehicle Agency in respect of Northern Ireland Vehicle Information System have been transferred to the Agency. They were transferred at net book value of £2.7 million.

Review of Fixed Assets

The Agency has undertaken a review of its capitalisation policy and implemented a threshold of £5,000 from 1 April 2010. All assets with a net book value of less than £5,000 at 1 April 2010 amounting to £426,000 have been written off, the view of management being that these assets had come to the end of their useful life.

Analysis of depreciation, amortisation and impairment line in Statement of comprehensive income

	2010-11	2009-10
	£000	£000
Depreciation of property, plant and equipment	**6,949**	9,328
Loss on disposal of property, plant and equipment and intangibles	**755**	19
Amortisation of intangible assets (note 8)	**19,482**	17,355
	27,186	26,702

	2010-11	2009-10
The amounts of depreciation, amortisation and impairment that was financed by Government grant and for which the grant has been released in the year is as follows:	**£000**	£000
	6,878	5,490

Note 8. Intangible assets

The Agency holds a perpetual software licence with Hewlett Packard (HP) for the right to use the driver and vehicle software. Development work undertaken by the Agency that adds value to this is capitalised. In addition, purchased software licences are capitalised in this category.

2010-11	Software £000	Assets under Construction £000	Total £000
Cost or Valuation			
At 1 April 2010	186,879	12,740	199,619
Additions	2,417	14,736	17,153
Transfer	11,104	(11,104)	–
Disposals	(10,143)	–	(10,143)
Revaluation	2,508	–	2,508
At 31 March 2011	**192,765**	**16,372**	**209,137**
Amortisation			
At 1 April 2010	104,416	–	104,416
Charged in year	19,482	–	19,482
Disposals	(10,080)	–	(10,080)
At 31 March 2011	**113,818**	**–**	**113,818**
Net book value at 31 March 2010	82,463	12,740	95,203
Net book value at 31 March 2011	**78,947**	**16,372**	**95,319**

2009-10	Software £000	Assets under Construction £000	Total £000
Cost or valuation			
At 1 April 2009	168,521	5,689	174,210
Additions	13,719	9,915	23,634
Transfer	2,864	(2,864)	–
Revaluation	1,775	–	1,775
At 31 March 2010	186,879	12,740	199,619
Amortisation			
At 1 April 2009	87,061	–	87,061
Charged in year	17,355	–	17,355
At 31 March 2010	104,416	–	104,416
Net book value at 31 March 2009	81,460	5,689	87,149
Net book value at 31 March 2010	82,463	12,740	95,203

The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model would have been £87.3 million (2009-10: £89.4 million).

Intangible additions of £14.7 million (2009-10: £9.9 million) have been included in respect of software under development which is due to be completed and brought into use in future years. Of the net book value at 31 March 2011 £36.9 million (31 March 2010: £38.5 million) has been financed by finance lease.

Significant intangible assets controlled by the Agency are detailed below:

Asset	31 March 2011			31 March 2010		
	Remaining Useful economic life	Net Book Value		Remaining Useful economic life	Net Book Value	
	(months)	£000	£000	(months)	£000	£000
Electronic Vehicle Re-licensing	34		9,607	46		12,583
DVLA personalised registrations	57		4,832	69		5,662
Vehicle System Software Re-platforming	47		6,126	59		7,445
Drivers re-engineering						
Phase 1	96	25,296		108	27,549	
Phase 2	60	3,818		72	2,754	
Phase 2.1 (value added in 2010-11)				AUC	1,681	
			29,114			31,984
Ten Year Renewal						
Phase 2	59		7,772	71	402	
Phase 2 (value added in 2010-11)				AUC	1,670	
Enhancement (value added in 2010-11)				AUC	6,123	
						8,195
Smart Tachographs	42	768		54	956	
Smart Tachographs – Phase 1	57	3,287		69	3,852	
			4,055			4,808
Common Driver and Vehicle Operators interface	34		994	46		1,303
Drivers casework system (CASP)	9		1,213	21		2,739
Weblogic	AUC		4,982	AUC		1,090
Payment Card Data Security	AUC		2,523	AUC		694
Others			24,101			18,700
Total			95,319			95,203

AUC relates to Assets Under Construction.

There were no contractual commitments for intangibles as at 31 March 2011.

Note 9. Trade and other receivables

	31 March 2011	31 March 2010	1 April 2009
	£000	£000	£000
Amounts falling due within one year:			
Trade receivables	**4,692**	5,162	5,815
Other receivables	**92**	63	211
Public sector debtors	**10,966**	16,092	9,841
VAT reclaimable	**5,738**	9,161	3,968
Post Office® prepayments	**23,310**	19,378	19,281
IBM prepayment – IT equipment	**5,799**	7,771	5,208
IBM prepayment – service delivery	**4,572**	3,503	–
Other prepayments	**2,571**	2,005	20
Estates PFI prepayment	**1,286**	1,886	1,683
Accrued income	**4,439**	2,538	12,811
	63,465	67,559	58,838
Amounts falling due after more than one year:			
IBM prepayment – IT equipment	**5,011**	8,014	3,833
IBM prepayment – service delivery	**128**	–	–
	5,139	8,014	3,833
Total	**68,604**	75,573	62,671

Trade receivables 2010-11 of £4.7 million (2009-10 £5.1 million) includes £3.6 million (2009-10 £3.6 million) in relation to DVLA personalised registrations auctions. This amount will, after deduction of costs, be paid over to HM Treasury during the subsequent financial year.

All prepayments deliver improved terms of contract but are assessed on each individual case to ensure value for money before they are made.

Note 10. Cash and cash equivalents

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	**60,687**	50,579	45,769
Net change in cash and cash equivalent balances	**4,989**	10,108	4,810
Balance at 31 March	**65,676**	60,687	50,579
The following balances at 31 March were held at:			
Government Banking Service	**65,676**	60,687	50,579
Balance at 31 March	**65,676**	60,687	50,579

The Government Banking Service balance held of £65.7 million includes £20.0 million (2009-10: £27.3 million) held on behalf of HM Treasury and £0.34 million (2009-10: £5.9 million) due to Department for Transport (DfT), both due to be paid over soon after the year end (**see Note 11**).

Note 11. Trade and other payables

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Amounts falling due within one year			
Trade payables	**7,688**	18,248	15,391
Accruals and deferred income	**20,885**	27,828	34,135
Current part of finance leases	**–**	607	3,276
Current part of imputed finance lease element of on balance sheet estates Private Finance Initiative (PFI) contract	**1,657**	1,570	1,446
Dividend Payable to Department for Transport	**340**	5,903	4,386
Cash balance payable to the Consolidated Fund	**12,390**	5,829	12,665
Cash balance payable to the Trust Statement	**7,645**	21,429	12,091
Other – capital accrual	**327**	597	–
Loan from DfT (i)	**1,904**	–	–
	52,836	82,011	83,390
Amounts falling due after more than one year:			
Finance leases	**–**	–	5,537
Inputed finance lease element of on-balance sheet estates Private Finance Initiative (PFI) contract	**32,136**	33,793	34,401
Loan from DfT (i)	**17,144**	–	–
	49,280	33,793	39,938
Total	**102,116**	115,804	123,328

(i) In 2010-11 the Agency received a loan from DfT for £19.0 million to replace the Public Dividend Capital that was repaid in preparation for the revocation of Trading Fund status (see Note 23). The terms of this loan are 10 years at an interest rate of 3.69 per cent (Public Works Loan Board rate).

The movements relating to the finance lease element of the Estates PFI contract are as follows:

Inputed finance lease element of on-balance sheet Estates PFI contract	**2010-11**	2009-10
	£000	£000
1 April	**35,363**	35,847
Increase due to assets capitalised	**–**	976
Amount paid in relation to assets capitalised	**(1,570)**	(1,460)
31 March	**33,793**	35,363

Note 12. Financial Instruments

Fair values

The fair values of the Agency's financial assets and liabilities as at 31 March 2011 are shown below. With the exception of Finance Lease and Private Finance Initiative (PFI) creditors, due to the short-term nature of the financial instruments held, carrying value is considered to represent the fair values.

The Agency has examined its contracts to identify embedded derivatives and concluded that where identified these are closely linked to the host contract and therefore need no adjustment.

	2010-11 Fair value	**2010-11 Carrying amount**	2009-10 Fair value	2009-10 Carrying amount
	£000	**£000**	£000	£000
Financial Assets				
Cash and cash equivalents (note 10)	**65,676**	**65,676**	60,687	60,687
Loans and receivables (note 9)				
– Trade receivables	**4,692**	**4,692**	5,162	5,162
– Other receivables	**92**	**92**	63	63
– Public sector receivables (N.B. includes VAT)	**16,704**	**16,704**	25,253	25,253
– Accrued income	**4,439**	**4,439**	2,538	2,538
Total loans and receivables	**25,927**	**25,927**	33,016	33,016
Total financial assets	**91,603**	**91,603**	93,703	93,703
Financial liabilities				
Trade and other payables (note 11)				
– Trade payables	**7,688**	**7,688**	18,248	18,248
– Accruals	**20,885**	**20,885**	27,828	27,828
– Dividend payable	**340**	**340**	5,903	5,903
– Cash balance payable to the Consolidated Fund	**12,390**	**12,390**	5,829	5,829
– Cash balance payable to the Trust Statement	**7,645**	**7,645**	21,429	21,429
– Finance leases	**–**	**–**	623	607
– Imputed finance lease element of on-balance sheet PFI contracts	**32,943**	**33,793**	34,468	35,363
– Capital Accruals	**327**	**327**	597	597
– Loan from Department for Transport	**19,048**	**19,048**	–	–
Total financial liabilities	**101,266**	**102,116**	114,925	115,804

The fair values above have been calculated using the discount rate implicit in the finance leases and PFI contract.

Financial risk management

The Agency's activities expose it to the following financial risks:

- Credit risk – the possibility that the other parties might fail to pay amounts due to the Agency
- Liquidity risk – the possibility that the Agency might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Agency as a result of changes in such measures as interest rates movements or foreign exchange rate movements.

Overall procedures for managing risk

The Agency's overall risk management procedures focus on systems of control to manage risk to a reasonable level rather than to attempt to eliminate all risk of failure to achieve policies, aims and objectives. **(See Statement on Internal Control)**.

The financial systems of management control established include:

- Integrated Resource Management (IRM) – a monthly planning cycle, which supports budgetary controls, monitoring volume and change demand, resource supply. The IRM process is also fundamental as part of our efficiency and Value for Money (VFM) planning and monitoring, especially in respect of headcount.
- Finance Committee - delegated expenditure responsibilities, also providing advice on operational budgets and project affordability to the Executive Board (EB). Chaired by the Director of Finance, the Finance Committee meets on a monthly basis.
- Monthly reporting (including KPIs, income and expenditure) to EB and our Sponsor the Motoring Services Directorate of the Department for Transport.
- Monthly programme expenditure reporting to Agency Change Board, EB and MFS.
- Quarterly review of budgets at Executive Board Financial Review.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Agency's customers and other parties. The Agency invests only with National Loans Fund, transferring funds from its Government Banking Service accounts. DVLA does not use any third party money markets thus avoiding the risks associated with depositing surplus funds in such markets.

Exposure to credit risk

The carrying amount of financial assets £91,603,000 (31 March 2010: £93,703,000) represents the maximum credit exposure.

The ageing of receivables (gross) at the reporting date was:

	31 March 2011	31 March 2010
	£000	£000
Not past due	**24,929**	32,003
Past due 0-30 days	**44**	176
Past due 31-120 days	**860**	830
More than 120 days	**94**	7
Total	**25,927**	33,016

There has been no impairment provision for 2010-11 (2009-10: £nil). As the majority of DVLA's balances comprise other Government Departments and Agencies, the Agency believes that no further impairment allowance is necessary in respect of any other trade receivables.

The movement in the allowance of impairment in respect of receivables during the year was as follows:

	2011	2010
	£000	£000
Balance at 1 April	–	81
Impairment loss – payment received	–	(81)
Balance at 31 March	–	–

Liquidity Risk

The Agency's exposure to liquidity risk is limited. The level of capital expenditure payments are managed to be met from available cash balances. The contractual maturity of finance lease financial liabilities, including interest payments is:

31 March 2011

Non-derivative financial liabilities	Carrying amount	Future Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	–	–	–	–	–	–	–
Private Finance Initiative (PFI) Liabilities	33,793	(48,331)	(1,726)	(1,726)	(3,452)	(10,356)	(31,071)
Loan from Department for Transport	19,048	(22,738)	(1,304)	(1,286)	(2,520)	(7,138)	(10,490)
Total	**52,841**	**(71,069)**	**(3,030)**	**(3,012)**	**(5,972)**	**(17,494)**	**(41,561)**

Non-derivative financial liabilities	Fair Value	Fair Value of Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	–	–	–	–	–	–	–
PFI Liabilities	32,943	(32,943)	(1,680)	(1,634)	(3,095)	(8,337)	(18,197)
Loan from Department for Transport	19,048	(19,048)	(1,280)	(1,240)	(2,363)	(6,231)	(7,934)
Total	**51,991**	**(51,991)**	**(2,960)**	**(2,874)**	**(5,458)**	**(14,568)**	**(26,131)**

31 March 2010

Non-derivative financial liabilities	Carrying amount	Future Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	607	(647)	(479)	(168)	–	–	–
PFI Liabilities	35,363	(51,783)	(1,726)	(1,726)	(3,452)	(10,357)	(34,522)
Total	35,970	(52,430)	(2,205)	(1,894)	(3,452)	(10,357)	(34,522)

Non-derivative financial liabilities	Fair value	Fair Value of Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5+ years
	£000	£000	£000	£000	£000	£000	£000
Finance lease liabilities	623	(623)	(466)	(157)	–	–	–
PFI Liabilities	34,468	(34,468)	(1,680)	(1,635)	(3,096)	(8,337)	(19,720)
Total	35,091	(35,091)	(2,146)	(1,792)	(3,096)	(8,337)	(19,720)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Interest rates

The Agency has been exposed to interest rate movements on its cash balances only. In 2010-11 the Agency received a loan from Department for Transport, the terms of this loan are 10 years at an interest rate of 3.69 per cent (Public Works Loan Board rate). Cash balances are held in short term, floating interest-earning accounts and from 1 April 2010 these have all been held in Government Banking Service bank accounts. Movements in interest rates will impact the level of interest income credited to the Statement of comprehensive income. At the reporting date the fixed rate interest-bearing financial instruments are shown below:

	Carrying Amount	
	2011	2010
	£000	£000
Fixed Rate instruments		
PACT contract alternative payment mechanism finance leases	–	(607)
PFI	**(33,793)**	(35,363)
Financial liabilities	**(33,793)**	(35,970)
Variable rate instruments		
Interest bearing bank accounts	**(44,913)**	(49,498)

Fair value sensitivity analysis for fixed rate instruments

The Agency does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Agency does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the surplus/(deficit) position.

Cash flow sensitivity analysis for variable rate instruments

A change of 0.5 per cent in interest rates at the reporting date would have increased/(decreased) the surplus or deficit for the year by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for 2009-10.

	Surplus or Deficit: 0.5% increase/(decrease)	
	£000	£000
31 March 2011	**225**	**(225)**
31 March 2010	249	(249)

Foreign exchange rates

Financial assets and liabilities are generated by day-to-day operational activities and the Agency has limited exposure to foreign exchange.

Note 13. Provisions for liabilities and charges

2010-11	Early departure costs	Tax officers' pension costs	Total
	£000	£000	£000
Balance at 1 April 2010	10,303	5,090	15,393
Provided in the year	158	(52)	106
Provisions utilised in the year	(2,678)	(806)	(3,484)
Unwinding of discount and impact of changes in discount rate	(36)	(36)	(72)
Balance at 31 March 2011	7,747	4,196	11,943

Analysis of expected timing of discounted cash flows

2010-11	Early departure costs	Tax officers' pension costs	Total
	£000	£000	£000
Not later than one year	2,097	636	2,733
Later than one year and not later than five years	5,092	2,052	7,144
Later than five years	558	1,508	2,066
Balance at 31 March 2011	7,747	4,196	11,943

2009-10	Early departure costs	Tax officers' pension costs	Total
	£000	£000	£000
Balance at 1 April 2009	8,779	5,872	14,651
Provided in the year	5,201	(17)	5,184
Provisions utilised in the year	(4,105)	(765)	(4,870)
Unwinding of discount and impact of changes in discount rate	428	–	428
Balance at 31 March 2010	10,303	5,090	15,393

Analysis of expected timing of discounted cash flows

2009-10	Early departure costs	Tax officers' pension costs	Total
	£000	£000	£000
Not later than one year	2,518	705	3,223
Later than one year and not later than five years	6,872	2,405	9,277
Later than five years	913	1,980	2,893
Balance at 31 March 2010	10,303	5,090	15,393

Early departure costs

The Agency meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme (PCSPS)/Stakeholder scheme benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS/Stakeholder schemes over the period between early departure and normal retirement date of age 60. The Agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments. Future payments to be made under the Early Departure and Voluntary Retirement schemes are discounted at the HM Treasury advised rate of 2.9 per cent (2009-10: 1.8 per cent).

Tax officer pension costs

Under the Pension Increase Act 1971, the Agency has a liability to contribute to the pensions of ex local taxation office staff who were employed on driver and vehicle licensing work before the creation of the Driver and Vehicle Licensing Centre. Under the Vehicle and Driving Licence (Compensation to Officers) Regulations 1977, the Agency makes compensation payments to local authority staff in respect of loss of emoluments when the Local Taxation Offices closed. The provision is based on advice from the Government Actuary Department, which is re-assessed normally every three years but due to adoption of International Financial Reporting Standards a re-assessment has taken place at 31 March 2010. Following the estimations of future cash flows provided by the Government Actuary Department future payments to be made in relation to this provision have been discounted at the HM Treasury advised rate of 2.9 per cent (2009-10: 1.8 per cent).

Note 14. Commitments under leases

Operating leases

Obligations under operating leases comprise:	**31 March 2011**	31 March 2010
	£000	£000
Buildings		
Not later than one year	**6,183**	6,740
Later than one year and not later than five years	**17,807**	18,493
Later than five years	**19,497**	22,261
	43,487	47,494
Other:		
Not later than one year	**124**	137
Later than one year and not later than five years	**78**	159
Later than five years	**–**	–
	202	296

Finance leases

Obligations under finance leases comprise:	31 March 2011 £000	31 March 2010 £000
Other:		
Not later than one year	–	648
Later than one year and not later than five years	–	-
Later than five years	–	-
Less interest element	–	(41)
	–	607

Finance Leases are made up of software development expenditure. Expenditure is capitalised and depreciated over the life of the associated asset and the finance lease creditor is released over the four year life of the agreement. Finance lease interest is expensed at a constant periodic rate on the outstanding balance of the liability.

Note 15. Commitments under Private Finance Initiative (PFI) on-balance sheet contracts

On-balance sheet

	31 March 2011 £000	31 March 2010 £000
Total obligations under on-balance sheet Estates PFI contract for the following periods comprise:		
Not later than one year	**3,452**	3,452
Later than one year and not later than five years	**13,808**	13,809
Later than five years	**31,071**	34,522
	48,331	51,783
Less interest element	**(14,538)**	(16,420)
	33,793	35,363

There were no capital commitments under the Estates PFI contract in 2010-11 (2009-10: £989,000).

Charge to the Statement of Comprehensive Income and future commitments

The total amount charged to the Statement of Comprehensive Income in respect of the service element of on-balance sheet PFI transactions was £17.7 million (2009-10: £17.9 million) and the payments to which the Agency is committed during the next year, analysed by the period during which the commitment expires, is as follows:

	2010-11	2009-10
	£000	£000
Sixteen to twenty years	**18,865**	17,734

DVLA's estates development and refurbishment programme is delivered through the Estates PFI contract with Telereal Trillium. Assets are capitalised in line with the Agency's capitalisation policy and a corresponding PFI liability recognised. The annual unitary charge is separated between capital repayments, finance interest and a service charge element. PFI finance interest is expensed at a constant periodic rate on the outstanding balance of the liability.

Note 16. Other financial commitments

The Agency has entered into non-cancellable contracts (which are not leases or Private Finance Initiative contracts), for:

- Provision of end to end IT service including the provision of IT equipment
- Post Office® services including vehicle licensing, driver licence application checking, renewal of photo-licence.
- Wheelclamping services

The key payments to which the Agency is committed, analysed by the period during which the commitment expires are as follows:

	2010-11	2009-10
	£000	£000
Not later than one year	**7,872**	17,307
Later than one year and not later than five years	**641,242**	147,127
Later than five years	**–**	602,900
	649,114	767,334

Note 17. Contingent liabilities

The Public and Commercial Services Union lodged an equal pay claim against the Agency in 2007 on behalf of DVLA Executive Officers (EO) and using Driving/Senior Driving Examiners in Driving Standards Agency as the comparators. The Agency does not expect to incur a liability as it has a strong case and will provide a robust argument to rebut the union case. In the unlikely event that judgement is found against DVLA, the Agency is unable to reliably estimate the financial impact because of the complexities involved and the potential timescale to conclusion.

Note 18. Losses and special payments

	2010-11 Number of cases	2010-11 Value	2009-10 Number of cases	2009-10 Value
		£		£
Losses written off in year				
These are cash losses due to abandoned claims for payments from customers	**734**	**59,289**	619	38,414
Special payments				
Ex-gratia payments	**1,195**	**178,310**	1,321	139,000

With the change in accounting policy relating to the collection of enforcement fines and penalties any losses relating to abandoned enforcement cases are now accounted for in the Trust Statement.

Losses and special payments

2010-11

A potential equipment supplier initiated legal proceedings against DVLA during the year. After due process and appropriate approvals, the proceedings were concluded on mutually acceptable terms. We accrued for a special payment in excess of the reporting threshold of over £250,000. This accrual is included in Trade and Other Payables (Note 11), with the payment being made in May 2011.

Update on 2009-10 Accounts

In very early 2010-11 a key supplier of the technical equipment to DVLA became insolvent owing the Agency goods and services. The costs of these goods and services were expensed within the Statement of comprehensive income in 2009-10 as there was uncertainty as to whether they would be received. In 2010-11 DVLA has subsequently received the majority of outstanding goods and services through negotiation, but the final distribution from the administrators is still outstanding. DVLA remains optimistic, based on interim statements, that the Agency will be reimbursed for the majority of its costs. The final position will be reported within the 2011-12 Accounts.

The table below shows the current position regarding this:

	£000
Goods and services outstanding at 31 March 2010	3,093
Less amounts recovered in 2010-11	(1,362)
Amount outstanding awaiting distribution from administrators	**1,731**

In 2011-12 work will commence to redefine the delivery of electronic services. We propose to utilise some outputs from the Vehicle Integration Northern Ireland (VINI) Project to assist in the analysis phase for NI electronic services and expect that elements of the Tracking Vehicles through the Trade (TV3T) Project will be revisited as part of broader work to restructure the vehicles change of keeper process. As VINI and TV3T had previously been delayed with the full solutions yet to be detailed or agreed;it is not possible to estimate with any accuracy the exact benefits that will be derived from the two projects.

Note 19. Related parties

DVLA is sponsored by the Motoring Services, Directorate of the Department for Transport (DfT) that also sponsors two other Trading Funds: Driving Standards Agency (DSA) and Vehicle & Operator Services Agency (VOSA).

DfT is regarded as a related party and DVLA has a significant number of material transactions with DfT, most notably in respect of the Vehicle Excise Duty Service Level Agreement and Shared Services Centre. In addition, the Agency has had a significant number of material transactions with other government departments and central government bodies. Most of these transactions have been with Department of Work and Pensions, Driving Standards Agency, UK Border Agency, Identity and Passport Service, and the Post Office®.

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

Note 20. Intra-government balances

	31 March 2011	**31 March 2011**	31 March 2010	31 March 2010
	£000	**£000**	£000	£000
	Receivables	**Payables**	Receivables	Payables
Central Government bodies	**6,263**	**22,671**	11,177	19,434
Trading Funds and Public Corporations	**34,964**	**398**	33,627	1,500
Local Authorities	**2**	**–**	602	–
Total Intra-government balances	**41,229**	**23,069**	45,406	20,934

Note 21. Pension costs

Pension benefits are provided through the Principal Civil Service pension scheme (PCSPS). From 1 October 2002, civil servants may be in one of three statutory based final salary defined benefit schemes (Classic, Premium and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality money purchase stakeholder based arrangement with a significant employer contribution (Partnership Pension Account). Details of the standard PCPS are available on **www.civilservice-pensions.gov.uk**

Further details are included in the Remuneration Report earlier and in Note 3 to the accounts.

Note 22. Motor Vehicle Licence Savings Stamps

For a number of years DVLA ran a Motor Vehicle Licence (MVL) Savings Stamps scheme whereby customers could purchase savings stamps at the Post Office® and use them to redeem against payment for vehicle excise duty or for cash. The Post Office® held the cash funds representing unredeemed stamps held by members of the public in a specially designated account. In 2004, the Post Office® announced the introduction of its own wider savings stamps scheme. To coincide with this, DVLA announced that the issue of MVL Savings Stamps would cease on 31 March 2005. During 2005-06, the Post Office® continued to honour stamps presented for payment of Vehicle Excise Duty and drew on the cash funds it held to settle the amounts due. On 1 April 2006, the balance of cash held at the Post Office® (£38 million) was transferred to DVLA and from that date, holders of stamps could only redeem them or receive a refund directly from DVLA.

Since becoming a Trading Fund on 1 April 2004, DVLA has funded the running of the scheme covering both its own costs as well as those of the Post Office® during the transition year of 2005-06. From 1 April 2006 until 26 March 2008, the cash funds representing unredeemed stamps were held in an interest earning account. At 31 March 2011 the balance of funds remaining, amounting to £4.7 million (2009-10: £4.7 million) was held in a non-interest earning account with Government Banking Service. This cash balance and the associated creditor balance representing amounts owed to stamp holders are excluded from the Statement of financial position.

Note 23. Events after the Reporting Period

The Trading Fund status of the Agency was revoked by SI 630 2011 which came into force on 1 April 2011. The revocation was required to enable the Department for Transport to fully comply with the requirements of HM Treasury's Alignment (Clear Line of Sight) Project, made law through the Constitutional Reform and Government Act 2010 that came into force on 8 April 2010. The DVLA was unique in government, classified by the Office of National Statistics as a central government body in the national accounts, but with Trading Fund status. The classification as a central government body implied that it should be brought on vote as part of Alignment; however this was inconsistent with its Trading Fund status. In order to resolve the inconsistency between DVLA's Trading Fund status and the need to bring its expenditure on Vote as part of the Alignment project it was agreed that the DVLA's Trading Fund status should be revoked. The revocation regulation was purely to address this anomaly. The Agency will continue to levy its fees and charges to cover the costs of its registration and licensing duties and will receive service level agreement funding to cover the full costs of collecting and enforcing Vehicle Excise Duty. It remains an Executive Agency of the Department for Transport. The Public Dividend Capital of £19 million was repaid in 2010-11 in preparation for the revocation of the Trading Fund status. To maintain the working capital of the Agency in 2011-12 this has been replaced by a loan from the Department for Transport. This change in status does not impact on the going concern of DVLA.

These financial statements are laid before the Houses of Parliament by the Comptroller & Auditor General (C&AG). International Accounting Standards (IAS) 10 requires the Trading Fund to disclose the date on which the accounts are authorised for issue. This is the date that the C&AG signs the certificate.