

2. Management Commentary

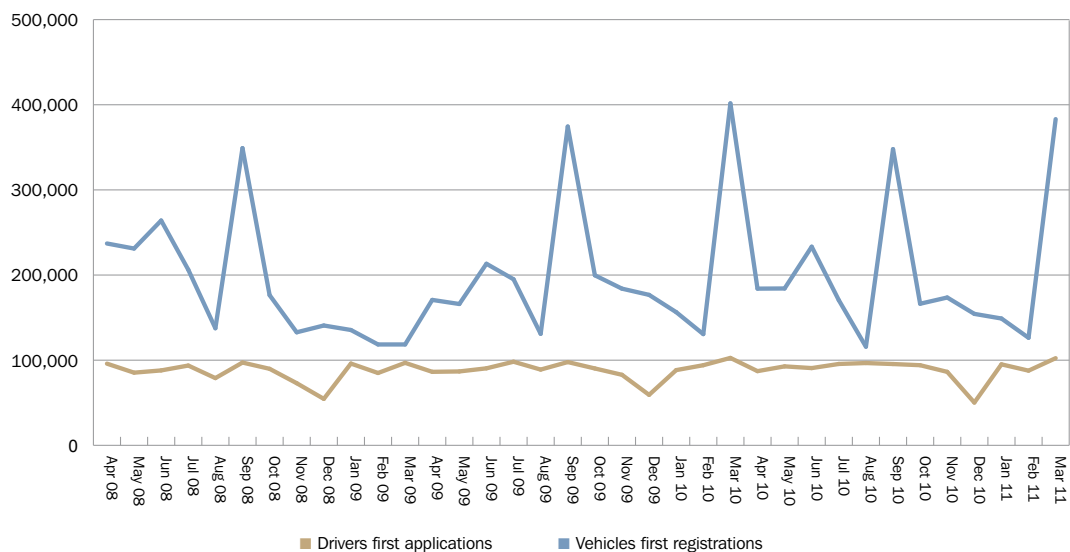
2.1 Business analysis

This section of the report comments on trends in transaction volumes, managing finances through 2010-11 and our responsibility for collecting Vehicle Excise Duty (VED).

New customers

First applications for a driving licence have remained broadly stable at a little over one million a year for at least the past four financial years. By contrast first vehicle registrations fell by 564,205 (18.7 per cent) in 2008-09 compared to the previous year as a result of the recession. The following year saw a stabilisation/rally largely as a result of the scrappage scheme but volumes have largely remained at subdued levels. In 2010-11, without the scrappage scheme and with a full year impact of the recession, the number was the lowest DVLA has experienced over the last 15 years by a further 60,551. This means the transaction volume fall from the 2007-08 high was 20.7 per cent.

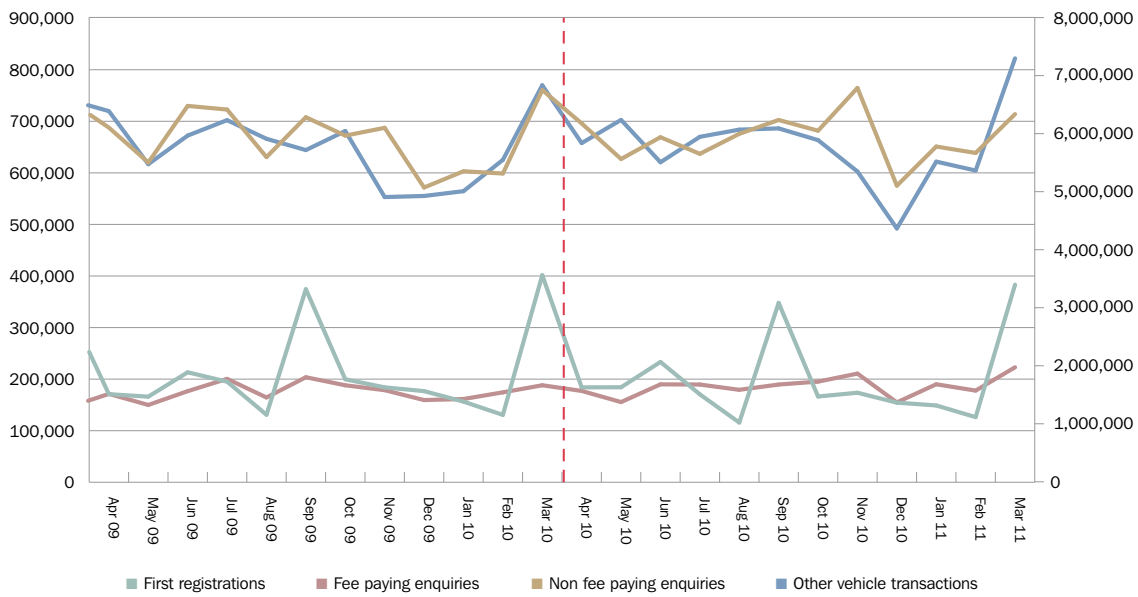
Driver first applications & vehicle first registrations
2008-09 to 2010-11



Vehicle transactions

Total vehicle transactions were down by 1,872,228 (2.2 per cent) over the past two years. Electronic Vehicle Licensing (EVL) hit a peak of 227,610 transactions on the single day of 28 February 2011. In total for the year, there were 21,712,162 EVL transactions, (51.3 per cent of all vehicle licensing transactions) an increase of 1,567,291 (7.8 per cent) compared to 2009-10.

Vehicle transactions 2009-10 to 2010-11

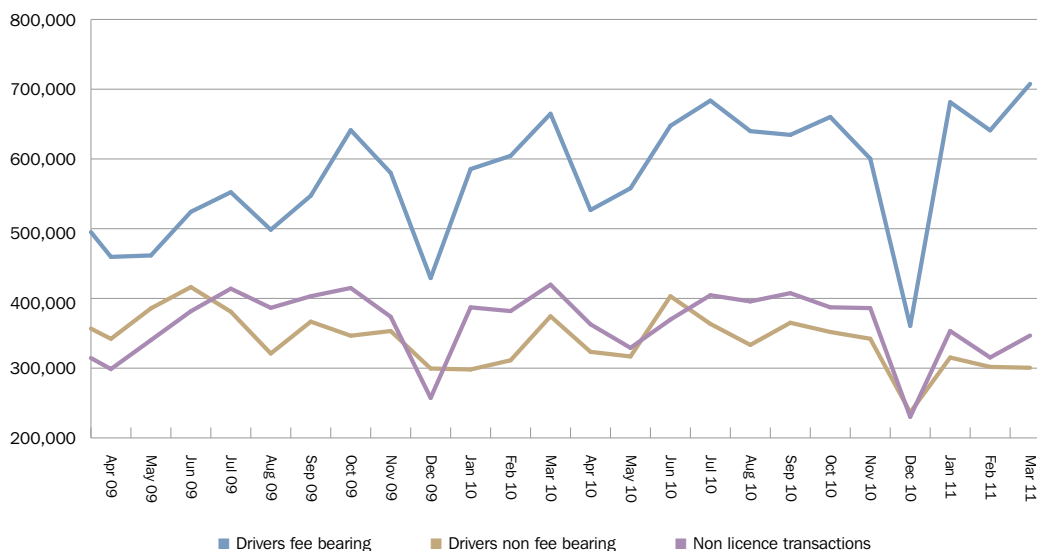


Note: Left hand axis for First Registration & Fee Paying Enquiries – Right hand axis for other transactions

Driver transactions

Total driver transactions have risen by 144,100 (10.2 per cent) over the past two years. During the year, the Agency handled 2,112,321 ten year renewal applications, up 646,793 (44.1 per cent) compared to the previous year.

Driver transactions 2009-10 to 2010-11



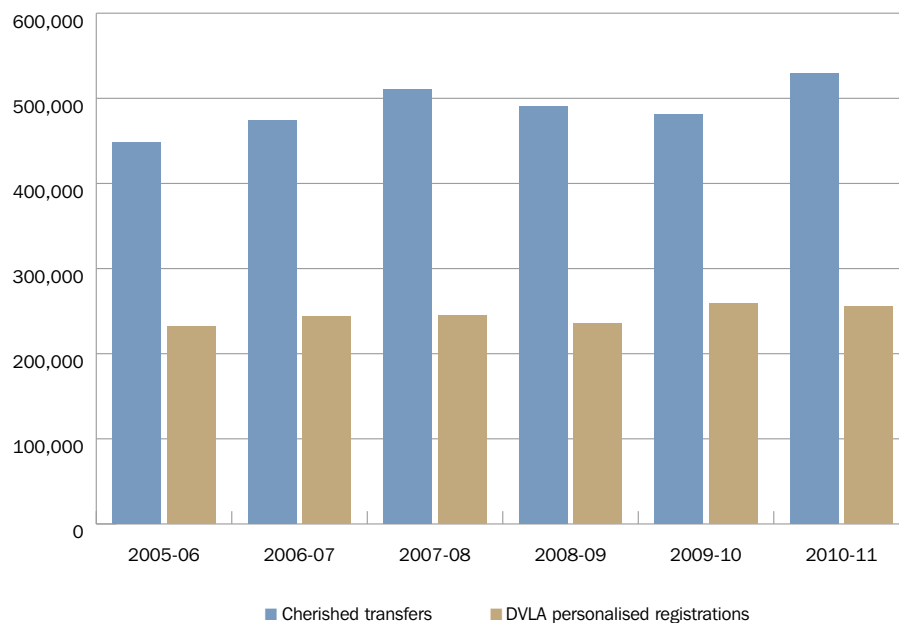
Enforcement cases

During the year 98,236 vehicles were wheel clamped because the registered keeper had not paid Vehicle Excise Duty (VED) or for a similar infringement of the law, 1,332 (1.3 per cent) down on the previous year. 105,775 vehicle owners paid their VED as a result of enforcement action by the Agency, 28,141 (21 per cent) down compared to the previous year. 279,668 continuous registration enforcement cases were completed during the year, 104,214 (27.1 per cent) down.

Premium transactions

Transactions that more than cover cost, with the surplus handed over to Treasury have remained stable or shown modest increases during 2010-11.

**Cherished transfers & DVLA personalised registration volumes
2005-06 to 2010-11**



Medical cases

During 2010-11 the Agency closed 719,027 medical cases. This was an increase of 75,934 (11.8 per cent) compared to the previous year. Of the licensing decisions required, 247,094 full licences and 196,531 short period licences were issued. 30,993 were either refused or revoked.

Customer enquiries

In 2010-11 DVLA's call centre received 23,490,294 enquiries and local offices dealt with 2,428,727 visits to conduct business across the counter. The average time customers spent waiting in a local office was 9 minutes 54 seconds, a 19 second (2.8 per cent) improvement compared to the previous year.

Accuracy of the record

DVLA's key purpose is to keep complete, accurate registers of drivers and vehicles and make them as accessible and as flexible as possible to those who have the rights to use them.

In 2010-11 the Agency carried out an accuracy survey with customers which showed that 97.8 per cent of vehicle keepers can be traced from details held on the vehicle record.

Better regulation

Reducing the amount of regulation is a government priority. Where regulation is shown to be necessary, it should be proportionate to the problem addressed, accountable to Parliament, consistent in impact, transparent to the public and targeted at the heart of the problem.

The Government have introduced the requirement that for every domestic regulation introduced that places costs or burdens on business, another regulation will be repealed.

During the year two pieces of legislation that the Agency is responsible for relating to sale of DVLA personalised registrations have been opened up to consultation over ways that the burden on business might be reduced.

2.2 Finances and efficiency

DVLA collected £5,782 million of Vehicle Excise Duty (VED) during the year, net of £201 million refunds processed. In addition, the Agency collected £31 million net (£49 million gross fines collectable net of cost of commercial debt collectors employed less £18 million written off) of fine and penalty income through enforcement action. The net incomes from these activities are delivered into the Consolidated Fund and are accounted for in the DVLA Trust Statement for 2010-11. The costs of undertaking these activities are reflected in the DVLA Business Accounts.

Our Business Plan for 2010-11 aimed for a surplus of £1.7 million. However, whilst exceeding our income expectations by just £5 million (0.7 per cent) the Agency instigated a number of additional cost reductions which contributed to the Agency's final outturn of a surplus of £24 million.

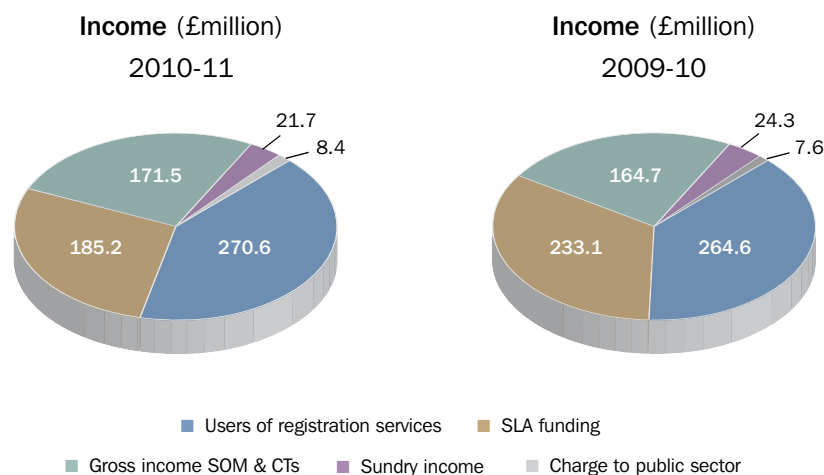
Prompt payment

In line with government policy, the Agency is committed to pay 80 per cent of invoices within five days and 98 per cent within 30 days. In 2010-11 we exceeded our targets achieving 86.9 per cent in five days and 99.7 per cent within 30 days.

Income

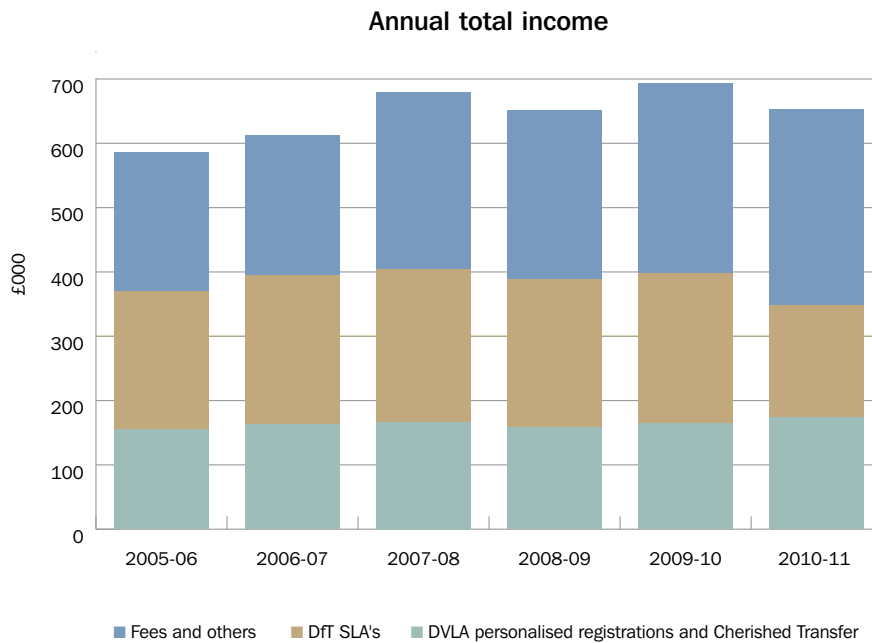
The Agency receives income from a number of sources, as reflected in the Business Accounts:

- fees and charges for vehicle registration and driver licensing
- proceeds of sale and transfer of DVLA personalised registrations
- from the Department for Transport (DfT) through Service Level Agreements (SLAs) for collecting and enforcing VED, based on the number of transactions processed and the unit costs through the different channels used, together with investment for development of related systems and restructuring costs
- from other public sector organisations for use of our services and facilities
- commercial charges that not only fully cover costs but also make a contribution to the cost of systems upkeep and replacement, reducing the burden on statutory fee payers.



The total gross income for the year from operations is £657.4 million. This is £36.9 million below that for 2009-10 but is £5 million above the forecast in our Business Plan.

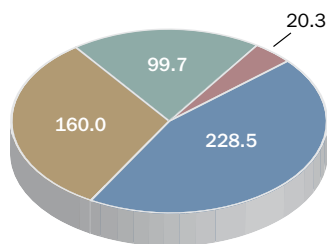
The reduction in income from 2009-10 to 2010-11 is mainly due to a lower volume of vehicle registrations and the reduction in funding which was received directly from DfT. In overall terms, the long-term trend for income can be summarised in the following annual total income chart.



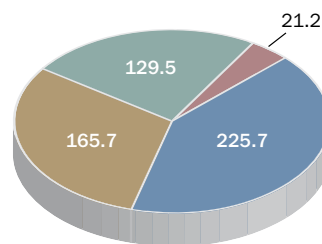
Expenditure

The Agency's total operating expenditure has dropped from £542.1 million in 2009-10, to £508.5 million in 2010-11 a reduction of 6.2 per cent in cash terms but with business volumes generally at around the same levels. The only significant fall in business as a result of the general economic slowdown was in the number of vehicle first registrations as noted earlier in the analysis of new customers. The split of operating expenditure is given in the following operating expenditure charts.

Operating expenditure (£million)
2010-11



Operating expenditure (£million)
2009-10



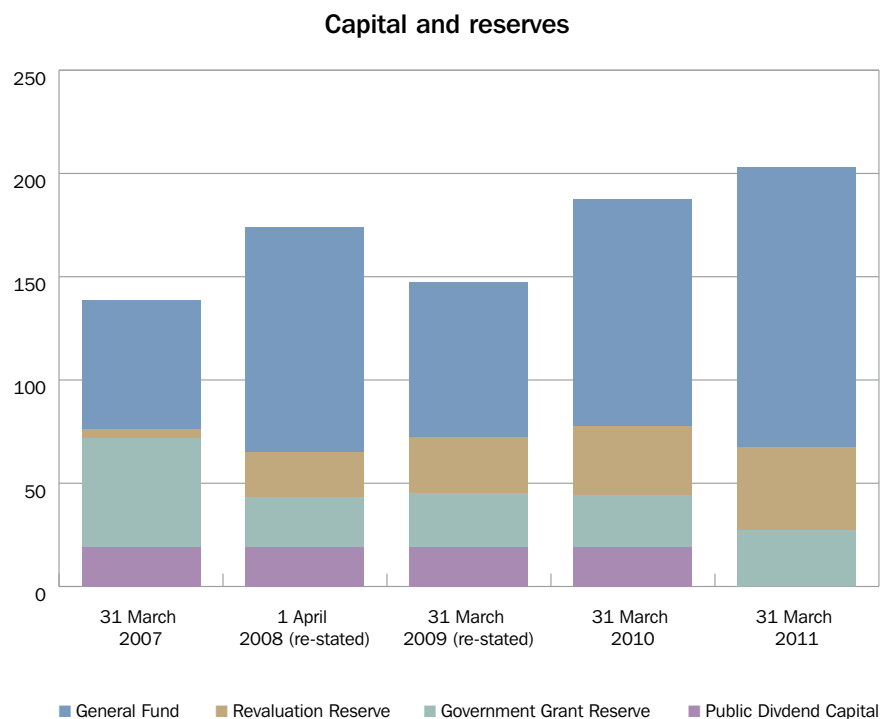
■ Outsourced ■ Staff costs ■ Internal operations ■ Net depreciation

Although the cost of work undertaken by others on our behalf has increased in monetary terms, compared with 2009-10, the increases lie in only two areas. Work undertaken by the Post Office® in 2010-11 contained an increased volume of work, (the result of ten year renewals of photocard driving licences) and medical reports provided by medical practitioners, again due to an increase in the volume of business conducted.

Agency capital and reserves

The Agency has a major programme of investment in Information Communication Technology (ICT) with capital investment funded from the General Fund (retained surpluses). The Trading Fund status was revoked on 1 April 2011 and the Public Dividend Capital was repaid in March 2011 in anticipation of this revocation, being replaced by a loan from DfT which is shown under current and non-current liabilities on the Business Accounts Statement of financial position.

The capital and reserves table below shows how reserves have moved over the past five years.



The Government Grant Reserve has built up over recent years to match the value of assets funded directly through the VED SLAs for tax collection/enforcement. The release of the Government Grant Reserve each year offsets the depreciation charge on the corresponding assets. From 2011-12 the option to offset the grant against the cost of the asset has been withdrawn under the Government's Finance Reporting Manual (FRM) and therefore, the balance on the Government Grant Reserve will be transferred to the General Fund.

Asset management strategy

The major assets for DVLA are its ICT systems and its accommodation assets. The DVLA Strategic Agenda sets out the future intent for these assets in terms of future support and business direction.

The core DVLA estate in Swansea is freehold, sited on Crown land. Buildings have been refurbished over the last five years through a Private Finance Initiative (PFI) contract with Telereal Trillium, which also covers the facilities management services throughout all our offices. The local office network is in leased accommodation or in shared premises with other government organisations occupied through memorandum of terms of occupation agreements. There are no additional properties or surplus estates receipts envisaged, although DVLA anticipates reducing its leased accommodation costs in the future. The Agency continues to explore sharing arrangements with other government agencies as our leases near expiry and in keeping with the drive to share resources and deliver efficiency across government. In recent years, DVLA has already vacated two leased buildings in Swansea through use of the PFI arrangements, as a result of staff reductions, non-territorial working and HQ refurbishment.

Efficiency

For the three-year period ending 31 March 2011, the Agency was set an efficiency target of £80.7 million, split between the three financial years £19.5 million, £25 million and £36.2 million respectively. Overall the Agency has exceeded its three-year target by realising £98.2 million of efficiencies in total and achieved the individual annual targets culminating in £46 million for financial year 2010-11. It also received a 'green rating' from the National Audit Office indicating robust evidence of measurement in year one.

Initiative	Delivery plan 2010-11	Outturn 2010-11
	£m	£m
Productivity	27.2	36.0
Service Transformation	4.7	6.0
Re-focussed Compliance	2.0	2.0
Estates Framework	2.3	2.0
Total efficiency gains	36.2	46.0

As part of the wider government agenda, the Agency set itself in its Strategic Agenda a challenging target starting in April 2011, of achieving £100 million in cost savings by 2015 compared to the Business Plan previously agreed for 2010-11. To date £21.3 million of efficiencies have been identified that contribute to this target. The position will be reported in future commentaries on a cumulative basis.

The cost saving initiatives put in place by the Agency in the year arose from a thorough review of our expenditure. Initiatives were instigated directly by the Agency as well as working with the Cabinet Office to examine the cost of services provided by major contractors to HM Government. We have been successful in reducing publicity and marketing costs by 88.5 per cent with negligible effect on VED collection rates. A review of postal costs has enabled us to switch from first class postage to second class for those transactions where the need for next day delivery was not justifiable. In addition, we have reviewed the use of inserts sent out with such documents as the vehicle registration certificate, the driving licence and the VED reminder letters. By the end of 2010-11 we had reduced overall usage of inserts on an ongoing basis by 96 million with an annualised ongoing saving over £2 million.

DVLA has developed a new no cost/low cost marketing strategy in response to the Government's decision to reduce all government advertising and marketing spend. This presents a unique opportunity for the base-lining of previous marketing effectiveness and to establish new 'value marketing' in the public sector. The new strategy ensures targets for the range of DVLA products are achieved despite the absence of 'paid for' advertising. We continue to monitor VED compliance rates very closely to ensure that this shift in approach does not significantly impact our collection, as each 1 per cent movement equates to more than £50 million lost revenue.

Government Banking Service (GBS)

The Agency successfully switched all of our banking systems from the Office of the Paymaster General to the new banking arrangements with the Royal Bank of Scotland Group and Citicorp that are integral to the services provided by GBS. This provides more electronic banking services to DVLA, reduces our costs and we have contributed towards the overall economies of scale, with our £70-80 million banking transactions, to maximise benefits for the new pan-Government contract.

DVLA personalised registrations

In 2010-11 the Agency achieved an income of £83.3 million through its personalised registration scheme. This exceeded the forecast of £77.8 million for the year by £5.5 million.

The '11' series launch is credited with a significant proportion of this impact. In 2011-12 the Agency intends to retain this level of income with the release of previously issued registration numbers, some of which could carry significant individual value.

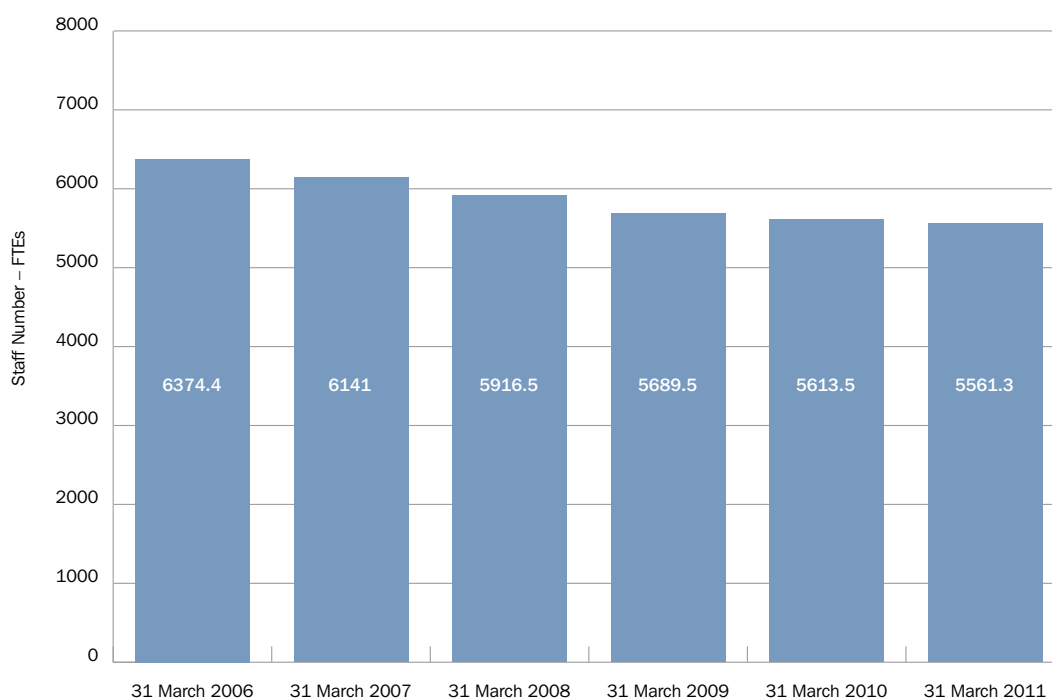
Workforce

We continue to reduce our staff numbers through productivity, automation and compliance initiatives, whilst at the same time absorbing additional work, for example increased telephone calls resulting from the issue of the 'last chance' licensing reminders. The impact in 2010-11 of this additional work was around 35 Full Time Equivalents (FTE), but at the same time we have cut down on overtime expenditure.

The table below shows the overall reduction in the number of FTE staff in place at the end of each of the last six financial years. In 2010-11 DVLA continued to reduce its dependency on contract/agency staff so that any reductions in staff numbers reflect genuine productivity gains and streamlining processes rather than substitution.

Since May 2010, there has been no new recruitment into the Agency other than into positions where for security or urgent business need there is no real alternative and then only with the express approval of DfT.

Workforce at each year end



Sick absence

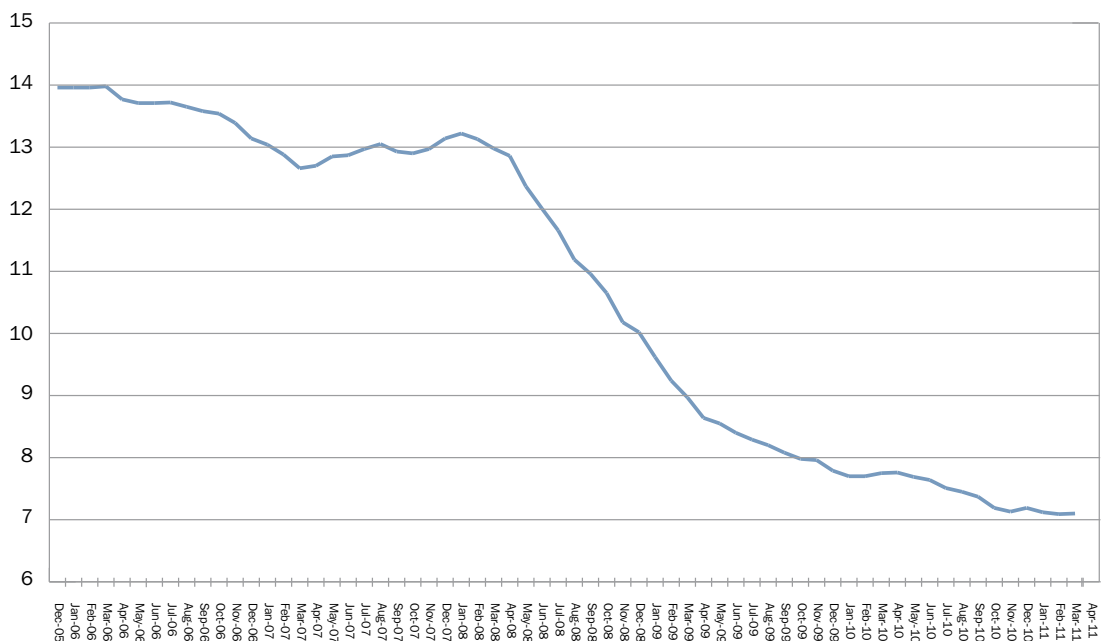
The Agency reached an unacceptable high during 2005, averaging 14 days per person and costing £10.3 million. Absence clearly needed to be addressed and improving wellbeing and staff engagement were considered key to achieving efficiency and increasing productivity.

The Agency prioritised its response by developing strategic approaches to:

- continuously improve against stretch targets for levels of sickness absence
- develop a fully engaged, inclusive workforce.

This work has delivered excellent results with sick absence rates almost halved at a current (annual) average of 7.12 days. The Agency has benefited by having more than 200 additional staff in work each day compared to 2005 and this has significantly contributed to efficiency gains for the year.

Sick absences rolling total (DVLA inclusive of SSC)
Average working days lost per employee



Health and safety

A dedicated health and safety team provide training as well as conducting an 18 month rolling programme of inspections. The table below picks out a selection of courses provided.

Health and safety training	Number of participants	
Course title	2010-11	2009-10
Health and safety for managers	201	16
First aid at work	58	8
First aid at work refresher	30	26
Emergency aiders	26	15

The inspection programme is up-to-date. Health and safety was audited internally and judged acceptable.

Accountability

2010-11	Parliamentary question	Ministerial reply	Reply to Member of Parliament	Chief Exec reply	Official reply	Reply to complaint
Total	92	544	1,544	1,203	1,337	3,087
Late	3 (3.2%)	8 (1.5%)	5(0.3%)	n/a	n/a	12 (0.4%)

Disability

DVLA equality policies promote and support diversity and equal opportunity. The Agency has been re-accredited with the 'Two Ticks Positive about Disabled People' symbol in recognition of its actions to support disabled people in the workplace.

The Agency carried out a disability survey in 2010 to confirm and focus the steps the Agency makes to help customers and staff work on an equal basis. In 2010 a new internal diversity intranet site was set up to make it easier for staff to locate information. 'Diversity week' was supported by staff networking groups and diversity champions.

Staff engagement

During the year the Agency continued to communicate regularly with staff and consult with the PCS trade union in respect of its members. Quarterly meetings are held with the Employee Representative Group which consists of staff from across the Agency. These meetings provide staff with the opportunity to air their views on matters affecting them and the Agency. In response to an invitation to staff, over 300 ideas have been put forward as part of the Safeguarding our Money campaign to reduce costs and increase efficiency.

DVLA's annual engagement survey showed an increase of positive responses to 59 per cent.

Next Generation

DVLA has completed the restructure of its HR function in line with the DfT 'Next Generation' HR initiative. The Agency is also playing an active role in learning and development, resourcing and policy expert services across the civil service.

During 2010-11, DfT implemented a centralised model for all resourcing activities, with the new DfT resourcing group located at DVLA's main Swansea offices. The Agency contributed to the standardisation of the Department's recruitment and selection processes to support this model.

In addition we have:

- transferred learning and development provision management to the Highways Agency
- transferred HR policy development and maintenance to the Department for Work and Pensions
- successfully multi-skilled over 400 staff throughout the Agency to increase their skills and confidence in HR. This has enabled a huge amount of cross working within central operations.

Procurement and contracts

Negotiate/extend existing contracts to deliver greater value and effectiveness

The Efficiency Reform Group within the Cabinet Office have targeted certain categories of spend. This will maximise the potential to exploit economies of scale as part of the Government's buying power. DVLA has extended some of its contracts to fall in with the new Government contracts. Examples of contracts that fall into this category are office stationery and various printing contracts such as forms and vehicle excise licences.

As part of this agenda, DVLA are acting as lead body for some of these Government frameworks, such as Card consumables and Merchant Acquiring.

In response to the Government Spending Challenge, in 2010-11 the Agency held its first two supplier forums followed up by individual meetings to further explore opportunities. The results were both informative and encouraging in that all the suppliers involved agreed that the forums have been extremely positive and that they could help DVLA achieve greater efficiencies through greater joint working.

Information Technology (IT) outsourced contract

The contract for IT and transformation services with IBM/Fujitsu was extended to 2015 in November 2009. As part of the renegotiation, some services are now provided at a lower cost. In 2010-11 savings were £17.3 million. Discussions led by the Cabinet Office with key government suppliers achieved additional savings in respect of DVLA in 2010-11 of £11.5 million and £5 million from IBM and Fujitsu respectively (£0.3 million above target). Other savings include the roll-out of the driver licence ten year renewal at the Post Office® and the revised post office agreement.

Post Office® Limited

During 2010-11 752 Post Office® branches began providing services of image capture and detail changes for photocard driving licences.

Private Finance Initiative contract with Telereal Trillium

During 2010-11 Telereal Trillium completed the refurbishment of the Swansea estate.

Medium outsourced contracts

The Agency has worked closely with DfT and the Cabinet Office to ensure that a consistent approach has been taken for category management function. For example, DVLA now take the lead for office supplies.

DVLA is the largest purchaser across government for a number of specific services, for example, merchant acquirer services and the provision of blank polycarbonate cards (which we use for driving licences) and wheelclamping activities. The Agency initiated procurements for these three categories in 2010-11 and will sign new contracts in 2011-12. For the first two, we are working with other government agencies and departments to leverage our economic scale to provide them with access to these services and deliver joint cost savings.

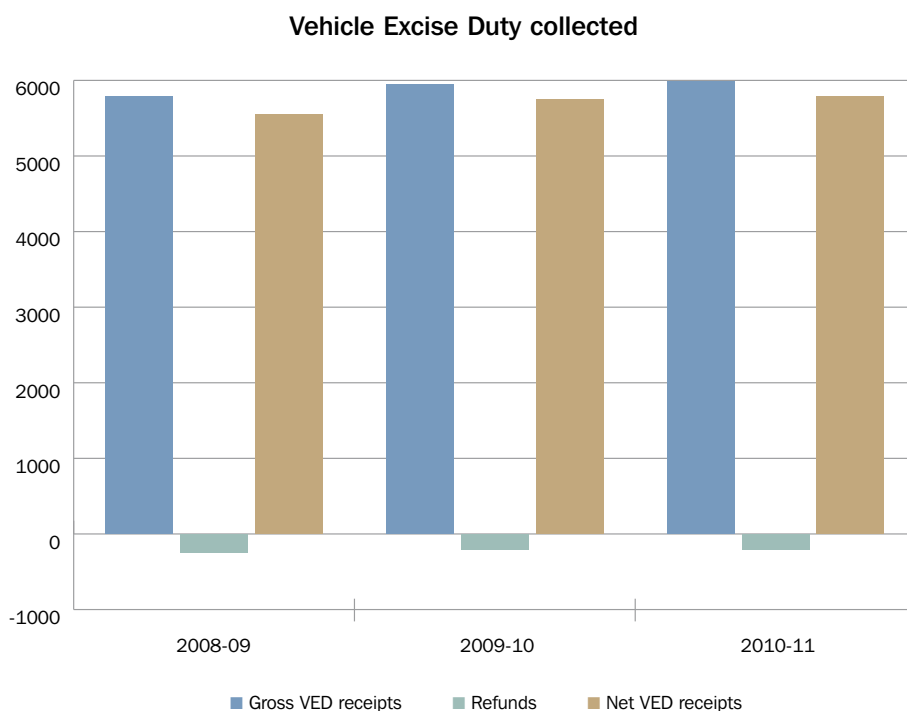
Contractual terms and conditions

The contractual commitment within DVLA terms and conditions stipulates a 30 day payment term except for those elements of electronic equipment that require commissioning where payment depends on successful acceptance testing. The Agency paid its suppliers in an average of 3.4 days of receipt of goods or service during 2010-11 (2009-10: 9.2).

2.3 VED collection and enforcement

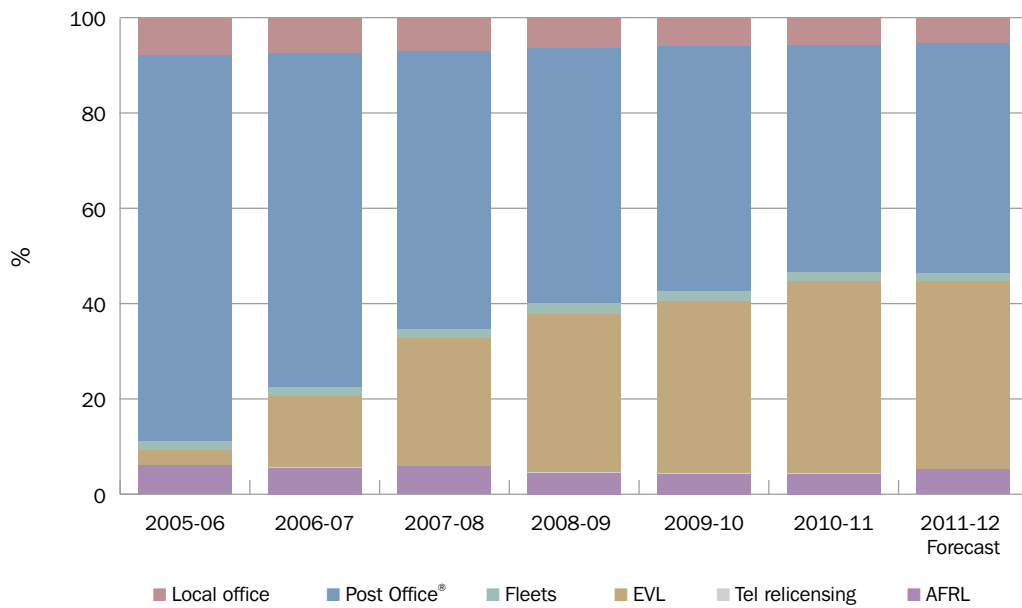
Collection

VED receipts in 2010-11 amounted to £5,782 million.



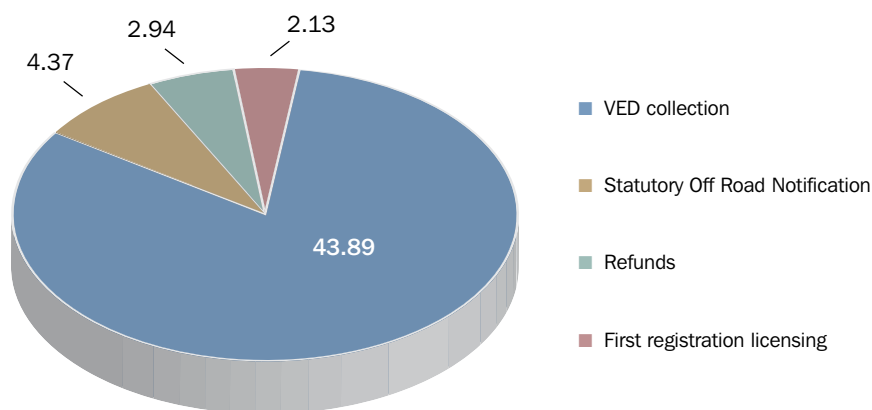
Electronic Vehicle Licensing (EVL) transactions have continued to increase in 2010-11. Take up is based upon the number of EVL transactions compared to the volume of V11 reminders issued. The Automated First Registration and Licensing transaction continues to be undertaken (89 per cent of all new licensing) through the e-channel.

Vehicle Excise Duty by channel



The key transaction categories included in the VED Service Level Agreement accumulate to a total of 53.33 million transactions.

Transaction volumes (£million)



Cost of collection

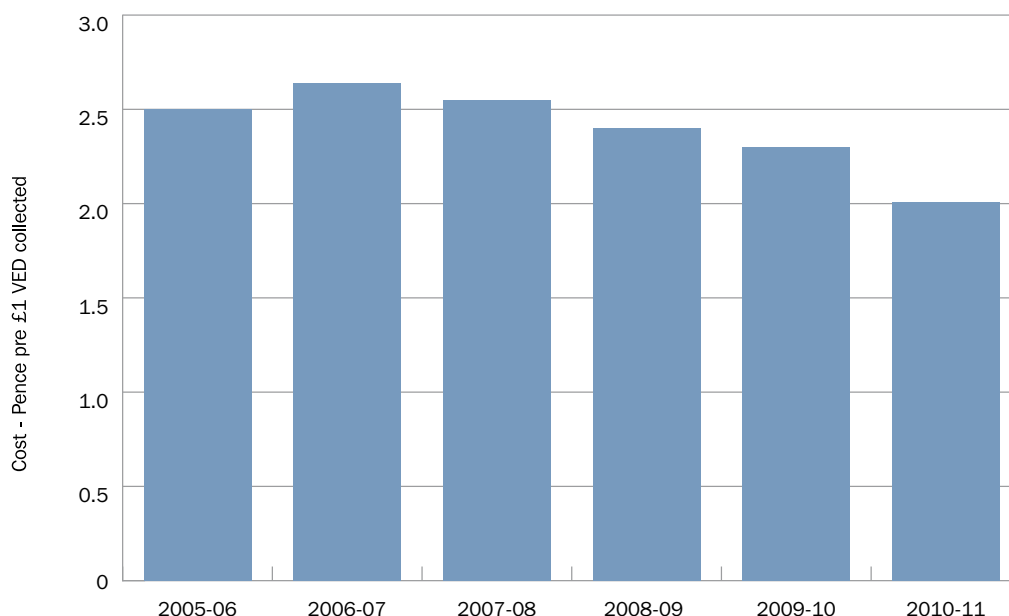
The costs of collection are spread over 53.3 million transactions, up from 52.5 million in 2009-10. The costs are funded directly through an activity based Service Level Agreement with DfT and the amount of funding is agreed by HM Treasury through a tripartite governance arrangement (the VED Governance Committee).

The costs of Vehicle Excise Duty (VED) collection in total were £115.6 million (against a budget of £126.9 million), comprising direct revenue expenditure of £111.1 million and capital expenditure of £4.5 million towards VED system changes. The capital contributions were credited to the Government Grant Reserve in the accounts.

DVLA has continued to deliver significant cost reductions through channel migration for VED collection, especially when the public sector deflator is taken into account. This has been possible through channel shift to electronic services.

In terms of costs of collection (pence per £1VED collected) bearing in mind that Statutory Off Road Notification and refund costs are also included, as are costs of issuing 'nil value' tax discs for exempted categories of vehicle keepers (mainly disabled keepers or cars initially registered before 1973, **see accounts for details**), the profile in cash terms without adjusting for inflation is shown in the Unit Cost of Vehicle Excise Duty Collection table below.

Unit cost of Vehicle Excise Duty collection



Enforcement

National statistics following the 2010 roadside survey estimated that the amount of revenue lost through VED evasion raised slightly from 0.6 per cent in 2009 to 0.9 per cent in 2010-11. It was estimated that £46 million was lost through evasion in 2010-11, compared with £32 million in 2009-10. However, some of this revenue will already have been recovered through DVLA enforcement. Despite the slight increase in evasion estimates, this year's results show the second-highest compliance rate ever achieved and DVLA continues to look at its enforcement strategy to keep evasion low.

Following a successful trial, the Agency received Ministerial approval to issue warning letters to keepers of unlicensed vehicles spotted by its static Automatic Number Plate Reader cameras. The letter gives keepers of unlicensed vehicles a warning that their vehicle had been seen unlicensed on the road and gives them a chance to become compliant.

In April 2010 DVLA introduced a late reminder letter to keepers of vehicles that had been unlicensed for two weeks. The letter is a final push to compliance before enforcement action commences. The reminder letters have resulted in approximately £7 million in extra VED being collected and have also reduced the amount of Continuous Registration (CR) penalties the Agency issue by over a third (or 25,000) per month.

Wheelclamping

Over 113,500 vehicles were clamped and/or removed in 2010-11, 98,000 of these by DVLA's national contractor NSL Services Group. Local authorities and Police forces throughout Great Britain enforced the remainder.

Debt collection

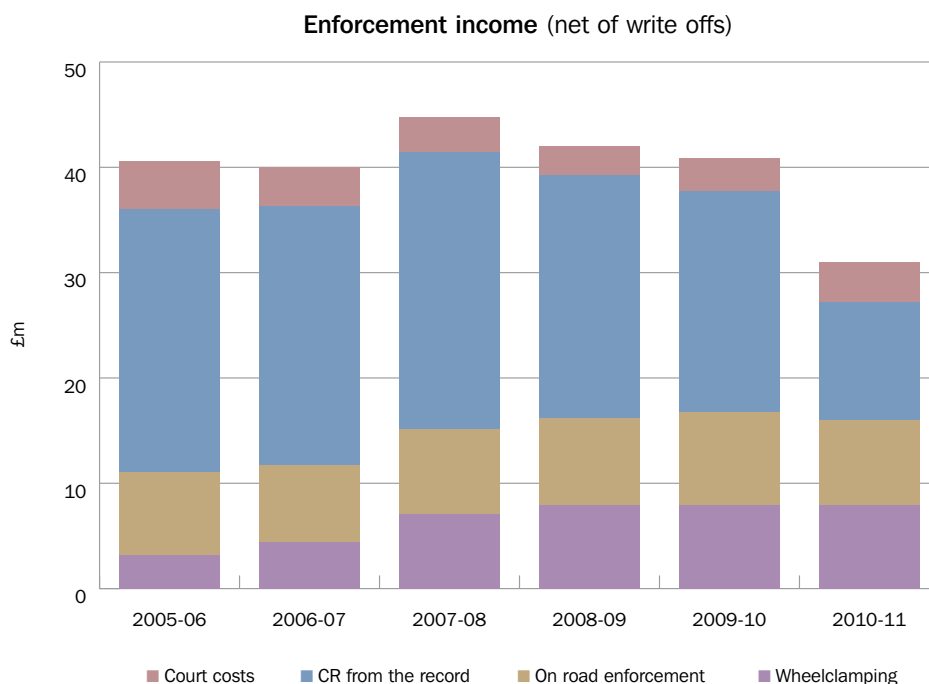
DVLA's debt collection agents have continued to exceed their contractual targets for 2010-11, collecting £8.4 million in unpaid Continuous Registration (CR) penalties.

Over 1.5 million unpaid CR cases have been passed to debt collectors since the contract started in 2008, raising £20.1million.

Continuous Insurance Enforcement (CIE)

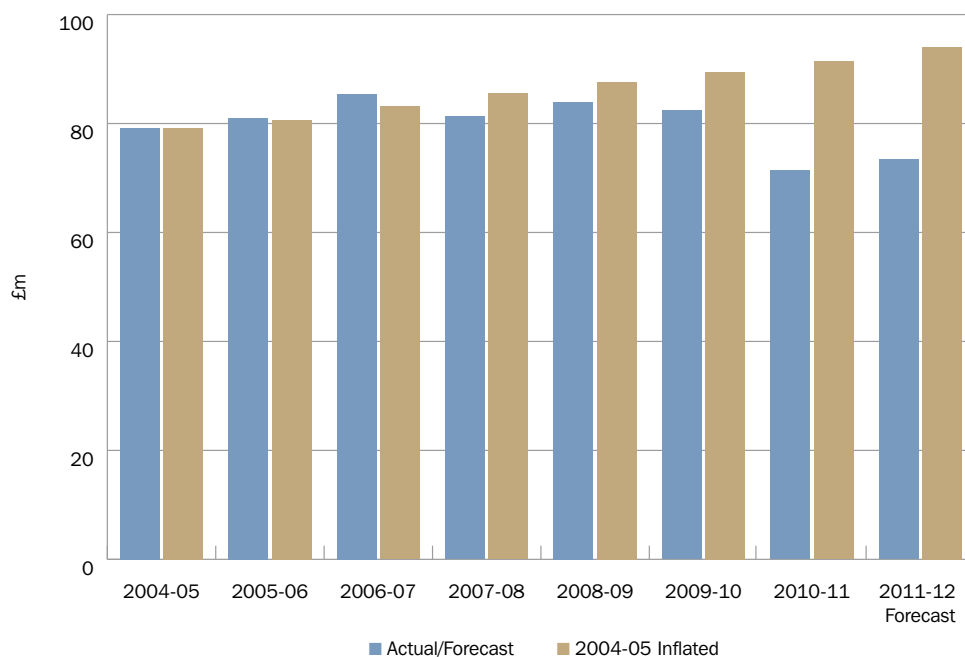
CIE business systems were delivered a month early in February 2011. Because of delays in the legislative processes, the Agency had to delay the first issue of insurance advisory letters from the planned date of March 2011 and it is expected that the first letter will be issued in June 2011. For more information visit

www.direct.gov.uk/en/Motoring/OwningAVehicle/Motorinsurance/DG_186696



The costs of enforcement for 2010-11 were £71.4 million against the budget of £74.7 million. This reduction has included such items as marketing and publicity as noted earlier but with no significant impact on the amount of VED collected. Compared to the deflation adjusted costs in 2004-05 the actual costs each year are analysed in the table below showing a 22 per cent real time reduction over five years.

Costs of Vehicle Excise Duty enforcement actual vs. inflated 2004-05 baseline



The enforcement forecast for 2011-12, includes the retention of court costs awarded and CIE costs, which were not included in previous years as these were counted as project costs.

Policy determination

During 2010-11 the DVLA received Ministerial direction that its enforcement strategy should be revised to re-align the dates of wheelclamping action and late licensing penalties. Work is progressing to delay wheel clamping action against unlicensed vehicles until two months after expiry of the licence, whilst bringing forward late licensing penalties from the two-month period to six weeks.