Vehicle Excise Duty: Evasion and Enforcement
This report has been prepared under Section 6 of the National Audit Act, 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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14 December 1995

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Summary and conclusions

1 The collection and enforcement of Vehicle Excise Duty in Great Britain is the responsibility of the Driver and Vehicle Licensing Agency, an Executive Agency of the Department of Transport. Vehicle Excise Duty is collected from keepers of vehicles, and licences are issued to show that it has been paid. Around 36 million licences are issued annually, and in 1994-95 duty amounting to some £4,000 million was collected in Great Britain. About a quarter of the Agency’s staff resource is employed on enforcement work, at a cost in 1994-95 of £25.7 million.

The main points

2 Important points arising from the National Audit Office examination are highlighted in boxes throughout this report. The main points are:

a) The cost of the Agency’s enforcement work has fallen in real terms since 1991-92 and the number of successfully completed cases has increased. But the amount of duty lost due to evasion has also risen, from 3.5 per cent of revenue collected in 1984 and 1989, to 4.1 per cent in 1994. In 1994-95 the lost revenue due to evasion was an estimated £163 million.

b) As the offence of evading Vehicle Excise Duty currently involves keeping or using an unlicensed vehicle on a public road, the extent of evasion can only be measured by surveying traffic on public roads. The Department of Transport’s 1994 roadside survey showed that duty was evaded for 6.2 per cent of vehicles, compared with 4.8 per cent in 1989 when the previous survey was carried out. Evasion has increased in all vehicle taxation classes, the biggest increase being for Heavy Goods Vehicles - from 2.4 per cent to 3.1 per cent (a 29 per cent increase), though comparison is complicated by some vehicles examined in the 1989 survey now being taxed as Private and Light Goods Vehicles. Motorcycles present special problems, with an evasion rate of 35 per cent (31 per cent in 1989).

c) In the last four years the Agency have received nearly 6.9 million offence reports. One of the Agency’s key external performance targets, the number of successfully completed enforcement cases, has been increased each year since 1991-92 and consistently achieved. In the last four years they have prosecuted nearly 800,000 cases and settled almost 1 million out of court - in total around a quarter of all offence reports received in this period.

d) The Agency also have an internal target for induced relicensing - cases where, as a result of media campaigns, being reported or subsequent enforcement action, vehicle keepers relicense for the period evaded without the need for the Agency to take further action. The target has been beaten in
two of the last three years. It is important that voluntary relicensing is not seen as a 'soft option'. The Agency recognise this and pursue all cases in the priority groups.

e) In the last four years 30 per cent of the offence reports received by the Agency have not been pursued. The reasons vary: the vehicle may have been relicensed following the report; it may be that the tax disc was not displayed, but that the vehicle was actually licensed; and the Agency often receive more than one report on the same vehicle, reflecting thorough policing. But some 23 per cent of reports not pursued were due to their being poorly completed by the police or traffic wardens. The National Audit Office calculate that these poorly completed reports could represent some £13 million in revenue foregone. The Agency consider that taking account of the costs of collection, and the likely low value of some cases, the revenue foregone is likely to be lower.

f) Many cases pursued by the Agency cannot reach a satisfactory conclusion. The number of cases in this category has doubled in the last few years, representing a further 27 per cent of reports received, and amounted to some 567,000 in 1994-95. Some cases are dropped if the evader has relicensed voluntarily as the case is being pursued, and as prioritisation is necessary, cases may be dropped if the amount of back duty involved is too low or the costs of pursuing it further are too high. But another factor is the quality of evidence available, and a long-standing problem has been the number of reports received which do not include the name of the vehicle keeper or driver. Such 'unnamed' reports represent about 70 per cent of all reports received, and they are much more difficult to pursue than named reports. The Agency have to operate in a cost effective way within the resources available to them.

g) National Audit Office examination of a random sample of over 500 unsuccessful cases showed that a significant problem in pursuing offence reports is that the Agency's vehicle register is not completely accurate. Thus it is of limited use in identifying the current keeper of a vehicle - in the majority of the unsuccessful cases examined the Agency were unable to trace, or serve papers on, the appropriate keeper. In 56 per cent of the cases sampled, the vehicle register was not completely accurate, mainly due to failure by the keeper to notify the Agency of address changes or of ownership being transferred. The National Audit Office estimate that revenue lost due to inaccuracies in the Agency's vehicle register could be in the region of £20 million a year - although there would have been additional costs if the cases had been pursued, and the Agency doubt that significant net revenue would have been generated from them.

h) The inaccuracy of the database is also hampering the prosecution of offenders for other traffic offences. A quarter of defendants summoned to court on motoring offences had the case against them dropped because they could not be traced. Although the failure to notify the Agency of changes of
address or owner is an offence, the Agency do not pursue such cases unless there is also evasion of duty involved - this is because it would increase their costs and take up scarce court time.

i) The average level of fine imposed by the courts has risen in real terms since the Committee of Public Accounts expressed concern on this point in 1986, but at £86 for 1994-95 it was less than the annual duty rate of £135 for a private car. However, evaders also have a liability to pay an additional amount equal to the back duty evaded, together with costs. The average total penalty payable in 1994-95 was £160. Despite rising evasion, the maximum penalty of £1,000 has never been imposed.

j) The Agency have improved their productivity in recent years. They are completing more cases, with fewer staff and at lower cost. Their target for the ratio of revenue to cost has been met or exceeded each year since 1991-92. This target needs to be viewed with some caution because the level of revenue is to some extent decided by the courts and beyond the Agency's control (as much of this revenue is determined as fines and costs by judicially independent magistrates, a large element of this revenue is also beyond the Government's direct control). The Agency do, however, make efforts to maximise revenue - for example through prioritising cases, the Windscreen Warning Notice scheme and through campaigns.

3 The National Audit Office examination was conducted against the background of Government proposals to change the arrangements for licensing vehicles - the aims are to cut the level of evasion and improve the accuracy of the Agency's vehicle register (Appendix 3). Under the proposals outlined in the Consultation Documents, when a vehicle is sold the buyer and seller would be required to notify the Agency jointly and under the revised proposals announced on 28 November 1995 keepers of most vehicles (excluding vehicles over 3.5 tonnes) would have to make a declaration to the Agency when their vehicles were taken off the road. The proposals would not, however, help with the problem of failure to notify the Agency of changes of address.

4 These proposals, if implemented, could affect the nature and level of the Agency's enforcement effort. Statutory Off Road Notification would mean the Agency being able to identify most unlicensed vehicles from the central vehicle register, without the need for roadside detection. On the road enforcement activity will continue for vehicles over 3.5 tonnes, as those are excluded from the proposals, and to detect abuse of the off-road declaration arrangements. For Statutory Off Road Notification to work efficiently, however, the Agency need to clean up the vehicle register - which at present includes 23 million unlicensed vehicles, most of which the Agency believe have been scrapped.

Overall conclusions

5 The number of reported evasion offences successfully prosecuted and settled out of court by the Agency has increased in recent years, and they have achieved this with fewer resources. But evasion is on the increase, and the Government
has proposed new licensing arrangements. The details of the new arrangements are not yet finalised, and it is not yet clear how they would affect the Agency’s enforcement work. But as a result of examining the Agency’s current arrangements the National Audit Office conclude that areas which merit particular attention if current and future arrangements are to give best value for money are:

**Issues which need to be addressed**

- increased evasion by operators of Heavy Goods Vehicles, and continuing high levels of evasion by owners of motorcycles;

- the quality of offence reports. In time, however, proposals for a Statutory Off Road Notification scheme may reduce the Agency’s dependence on offences being reported;

- the accuracy of the Agency’s vehicle register, which should be improved by the proposed new arrangements, though failure to notify the Agency of address changes could still be a problem;

- the level of fines imposed by the courts. The position seems little improved since the Committee of Public Accounts concluded, nearly 10 years ago, that the levels of some fines were virtually an encouragement to evasion and certainly no deterrent. However, the Home Office point out that in the circumstances of individual cases it can be difficult for courts to impose large fines.
Part 1: Introduction

Background

1.1 The Driver and Vehicle Licensing Agency (the Agency), an Executive Agency of the Department of Transport (the Department), have the following main responsibilities:

- the registration and licensing of drivers in Great Britain;
- the registration and licensing of vehicles in Great Britain; and
- the collection and enforcement of Vehicle Excise Duty in Great Britain.

1.2 This report examines the collection and enforcement of Vehicle Excise Duty. Duty is collected from keepers of vehicles, and licences are issued to show that it has been paid and to provide proof of exemptions where appropriate. The Agency's principal objective in this area is to encourage motorists to license their vehicles in accordance with the law. To this end they issue licence reminders, and initiate media and enforcement campaigns jointly with the police.

1.3 Annual licensing of vehicles also helps in maintaining a national database of vehicle records. This is important in the prevention and detection of crime, and in regulating vehicles' roadworthiness and insurance - a current 'MOT' certificate and proof of insurance must be produced to obtain a licence.

1.4 The Agency employ some 2,600 staff on vehicle licensing and on the collection and enforcement of Vehicle Excise Duty, at a cost of some £120 million a year. They issue some 36 million vehicle licences annually, and in 1994-95 collected duty amounting to some £4,000 million in Great Britain (or some £3,800 million net of refunds). About a quarter of the Agency's staff resource is employed on enforcement work, mainly in the London Enforcement Office and the network of Vehicle Registration Offices, at a cost of £25.7 million in 1994-95.

1.5 The day to day detection of evasion offences is carried out by the police and traffic wardens in the course of their normal work. They report offences to the Agency who in many cases pursue the evader, and this often results in out-of-court settlement or prosecution. The Agency's enforcement strategy, summarised at Appendix 2, is agreed with the Department. The relationship between the Department, the Agency and the police and traffic wardens is set out in Figure 1 overleaf.
Figure 1: The relationships between the Department, the Agency, and the Police and Traffic Wardens

**DEPARTMENT OF TRANSPORT**
- Agree the Agency’s enforcement strategy
- Set the Agency’s performance targets
- Agree the Agency’s enforcement resource

**DRIVER AND VEHICLE LICENSING AGENCY**
- Develop and implement the enforcement strategy
- Receive and process offence reports and undertake other enforcement activities
- Liaise with other parties (including the police and courts) and conduct enforcement campaigns

**POLICE FORCES AND TRAFFIC WARDENS**
- Detect evasion offences and report them to the Agency
- Issue windscreen warning notices
- Assist in conducting enforcement campaigns

*Source: National Audit Office*

This figure shows how the Agency’s enforcement strategy is agreed by the Department of Transport, and how the Agency rely on the Police and Traffic Wardens to report evasion offences to them.
1.6 The current rates of duty for the main vehicle taxation classes are shown in Figure 2. Evasion of duty is a criminal offence, which involves either keeping or using an unlicensed vehicle on a public road. The maximum penalty is £1,000 or five times the annual duty, whichever is the greater.

<table>
<thead>
<tr>
<th>Taxation class</th>
<th>Annual Duty Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private and Light Goods Vehicles</td>
<td>£135</td>
</tr>
<tr>
<td>Heavy Goods Vehicles</td>
<td>£150-5,000</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>£15-55</td>
</tr>
<tr>
<td>Hackney Carriages</td>
<td>£135-450</td>
</tr>
<tr>
<td>Special Machines</td>
<td>£35</td>
</tr>
</tbody>
</table>

Source: Driver and Vehicle Licensing Agency

This figure shows the rates of Vehicle Excise Duty for the main categories of vehicles.

1.7 Figure 3 overleaf shows the estimated level of evasion, and the cost and results of enforcement activity, over the last four financial years. The cost has fallen in real terms by 2 per cent over this period. But whilst the numbers of successfully completed cases have increased, the estimated level of evasion has also risen in real terms - from £138 million in 1989 to £163 million in 1994. Thus in July 1994 the Government announced proposals to change the basis for levying Vehicle Excise Duty, and in March 1995 issued a Consultation Document. The proposals, which were revised in November 1995, are described in Appendix 3 and summarised below.

Proposed changes

The Government's proposed changes as set out in the Consultation Document and announced on 28 November 1995 are to introduce:

- **Statutory Off Road Notification.** This would require vehicle owners to declare to the Agency that their vehicles have been taken off the road and, subsequently, to confirm the status of their vehicles each year.

- **Joint notification.** To improve the accuracy of the vehicle register, the Agency have announced that both the seller and the buyer of a vehicle will be responsible for joint completion of the registration document, with the liability on the seller to notify the Agency of the transfer. Currently both parties notify the Agency separately of the vehicle transfer.
Scope of the National Audit Office’s examination

1.8 In 1986, the Committee of Public Accounts reported on the Evasion and Enforcement of Vehicle Excise Duty (HC 480, Session 1985-86). The Committee’s main conclusions and recommendations, and the Department’s responses, are at Appendix 1. In 1993 the National Audit Office reported on the quality of service provided by the Agency to their customers (HC 105, Session 1992-93). In that report the National Audit Office undertook to report separately on the Agency’s performance in the collection and enforcement of duty.

1.9 This report examines:

- the level of evasion (Part 2);
- the Agency’s enforcement arrangements (Part 3).

1.10 In carrying out their study the National Audit Office interviewed staff at the Agency’s headquarters in Swansea, and at the Department’s headquarters in London, and undertook an in-depth examination of a sample of unsuccessful enforcement cases.
Part 2: The level of evasion

2.1 This Part is concerned with the extent and types of evasion: failure to pay Vehicle Excise Duty and thus to obtain a licence; and other forms of evasion - dishonoured cheques; abuse of exemptions and concessions, and underlicensing by weight.

Failure to obtain a licence

2.2 As the offence of evading Vehicle Excise Duty involves actually using or keeping an unlicensed vehicle on a public road, the extent of evasion can only be measured by surveying traffic on public roads. Thus the Department of Transport have undertaken three roadside surveys of actual evasion in 1984, 1989 and 1994. These surveys have allowed the Department to estimate the number of unlicensed vehicles and the amount of duty lost. Between surveys, the Department (on behalf of the Agency) monitor the trends in evasion through statistical analysis of the Agency’s vehicle record.

2.3 The National Audit Office examined the method used for the 1994 roadside survey, to assess whether it provided a reliable means of estimating rates of evasion and the amount of duty lost. The survey involved observing vehicles at a statistically representative number and pattern of census points. The enumerators randomly noted the registration marks of vehicles, subject to a minimum number in each tax class, and the Agency’s vehicle register was then checked to establish whether or not these vehicles were currently licensed. The National Audit Office concluded that the way the number and pattern of census points was decided, and the methods used to collect roadside data, had improved since the 1989 survey, and that the results of the survey were reliable. The results were also broadly consistent with those from the Department’s statistical estimates of evasion between surveys.

2.4 The survey was undertaken in June 1994 and the results, published in January 1995, are summarised in Figure 4 overleaf - which shows that the revenue lost as a result of evasion is approximately £163 million a year.

2.5 The National Audit Office compared the revenue lost based on the 1994 survey with the results of the 1984 and 1989 surveys, and in doing adjusted the figures for increases in the rates of duty. The results in Figure 5 overleaf show that there has been an increase, in real terms, of £49 million over the period. As a proportion of all Vehicle Excise Duty revenue, the amount lost has risen from 3.5 per cent in 1984 and 1989, to 4.1 per cent for 1994-95.
VEHICLE EXCISE DUTY: EVASION AND ENFORCEMENT

Figure 4: 1994 Roadside Survey: summary of results

<table>
<thead>
<tr>
<th>Taxation group</th>
<th>Unlicensed vehicles in use (Thousands)</th>
<th>Unlicensed vehicles as a percentage of vehicles in use</th>
<th>Revenue lost (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private and Light Goods</td>
<td>864</td>
<td>3.7%</td>
<td>119</td>
</tr>
<tr>
<td>Goods</td>
<td>14</td>
<td>3.1%</td>
<td>23</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>371</td>
<td>34.9%</td>
<td>12</td>
</tr>
<tr>
<td>Special Machines (Note 1)</td>
<td>254</td>
<td>44.5%</td>
<td>9</td>
</tr>
<tr>
<td>(eg Agricultural)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (eg Hackney)</td>
<td>58</td>
<td>5.3%</td>
<td>Note 2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,561</strong></td>
<td><strong>6.2%</strong></td>
<td><strong>£163m</strong></td>
</tr>
</tbody>
</table>

Source: Department of Transport Roadside Survey (June 1994)

Note: 1. As these were a small fraction of the vehicles sampled, little can be concluded with certainty about evasion in this group.

2. Actual estimated evasion in this category is £0.3m. The category includes exempt vehicles and those with nil licences.

This figure shows the proportion of unlicensed vehicles within each category varies widely, and that the total revenue lost through Vehicle Excise Duty evasion in 1994-95 was £163 million. This was calculated to within plus or minus £14 million, with a 95 per cent confidence level.

Figure 5: Annual Revenue lost due to evasion of Vehicle Excise Duty

Source: Department of Transport surveys

Note: The figures have been adjusted to take account of intervening increases in the rate of duty so that the figures for each year are comparable.

This figure shows how revenue lost due to evasion has risen in real terms over the last decade.
2.6 The increase in revenue lost in real terms due to evasion is due to increases both in the numbers of vehicles in use and the evasion rate - that is, the proportion of vehicles for which duty is being evaded. The National Audit Office noted that there were some two million more vehicles in use in 1994 than in 1989, and that the overall rate of evasion has increased from 4.8 per cent in 1989 (it was 4.9 per cent in 1984) to 6.2 per cent in 1994 (Figure 6).

![Figure 6: The rate of vehicle excise duty evasion (the proportion of vehicles for which duty is being evaded)](image)

This figure shows that the rate of vehicle excise duty evasion has increased from 4.8 per cent in 1989 to 6.2 per cent in 1994.

2.7 Figure 7 overleaf analyses by class of vehicle the differences between the 1989 and 1994 surveys in terms of evasion rates and revenue lost.

2.8 The 1994 survey shows that the evasion rate has increased in all taxation classes, with wide variations between classes. For Private and Light Goods vehicles the 1994 evasion rate is 12 per cent higher than in 1989, and for Heavy Goods Vehicles it is 29 per cent higher (though comparison is complicated as the Goods Vehicle group in the 1989 survey included some vehicle types now classified as Private and Light Goods Vehicles). Motorcycles continue to present special problems, with an evasion rate of 35 per cent - an increase of 13 per cent since 1989.

2.9 For the first time, the 1994 survey sought to disaggregate the level of evasion in other categories, which in 1994 amounted to almost 17 per cent - more than treble the level of evasion in 1989. This included an evasion rate among agricultural vehicles, road cranes and digging vehicles of 14.5 per cent (Figure 4 above). As these are a small fraction of the vehicles sampled, and
VEHICLE EXCISE DUTY: EVASION AND ENFORCEMENT

Figure 7: Comparison of evasion rates and duty lost in 1989 and in 1994 as estimated by the Roadside Surveys of those years

<table>
<thead>
<tr>
<th>Taxation Group</th>
<th>1989 Evasion rate (% of vehicles in use)</th>
<th>Revenue lost (£m)</th>
<th>Survey Year</th>
<th>1994 Evasion rate (% of vehicles in use)</th>
<th>Revenue lost (£m)</th>
<th>Difference between surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private and Light Goods</td>
<td>3.3</td>
<td>97</td>
<td>3.7</td>
<td>119</td>
<td>+12</td>
<td>+22</td>
</tr>
<tr>
<td>Goods</td>
<td>2.4</td>
<td>26</td>
<td>3.1</td>
<td>23</td>
<td>+29</td>
<td>-3</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>31.0</td>
<td>13</td>
<td>34.9</td>
<td>12</td>
<td>+13</td>
<td>-1</td>
</tr>
<tr>
<td>Other</td>
<td>5.0</td>
<td>2</td>
<td>16.9</td>
<td>9</td>
<td>+238</td>
<td>+7</td>
</tr>
<tr>
<td>Total</td>
<td>4.8%</td>
<td>£138m</td>
<td>6.2%</td>
<td>£163m</td>
<td>+22%</td>
<td>+£25m</td>
</tr>
</tbody>
</table>

Source: Department of Transport roadside surveys

Note: 1. These figures are National Audit Office adjustments for intervening changes in the rate of duty.
2. This figure comprises hackney carriages, agricultural vehicles, digging vehicles, mobile cranes, showman's vehicles etc. These groups have been analysed in detail for the first time in the 1994 survey.

This figure shows that evasion rates have increased for all vehicle classes between the 1989 and 1994 Roadside Surveys. Overall, after adjusting the 1989 results to 1994 rates of duty, the amount of revenue lost has also increased.

because there are uncertainties about the journeys undertaken by such vehicles, little can be concluded with certainty about evasion in these vehicle groups. However, these groups generally attract low rates of duty and represent only 2 per cent of all vehicles.

2.10 Under the Government proposals announced on 28 November 1995 (Appendix 3) which would require keepers taking a vehicle off the road to make a declaration to the Agency (with the exception of vehicles over 3.5 tonnes), the Agency should be able to determine the extent of evasion for most vehicle classes by examining their own records to see which vehicles are licensed. On-road enforcement will continue to be required to combat on the road use of vehicles for which a declaration has been made. On-road enforcement activity will also continue for vehicles over 3.5 tonnes, as these are excluded from the new proposals.

2.11 Key points

- the Department of Transport's 1994 roadside survey was soundly based and produced reliable estimates of Vehicle Excise Duty evasion. Under the Government's new proposals for a Statutory Off Road Notification scheme the level of revenue evaded should decrease;

continued...
the amount of duty evaded is estimated at £163 million, representing 4.1 per cent of revenue for 1994-95—compared with 3.5 per cent in 1989, when the previous roadside survey was conducted;

- in all taxation classes the rate of evasion has increased since the last survey in 1989 and, the number of unlicensed vehicles in use has increased from 4.8 per cent to 6.2 per cent.

Measurement of other forms of evasion

2.12 Apart from failure to obtain a licence disc, there are other forms of evasion.

(a) Evasion through dishonoured cheques

2.13 Most excise duty payments are initially made at Post Offices acting on behalf of the Agency. Some payments are made via Vehicle Registration Offices, including a proportion of Heavy Goods Vehicle licence renewals. The National Audit Office analysis in Figure 8 shows that, as a proportion of licences issued, since 1991-92 the number of cheques dishonoured each year has remained at less than 0.4 per cent. Nonetheless, over 116,000 cheques were dishonoured in 1994-95.

<table>
<thead>
<tr>
<th>Year</th>
<th>Licences Issued</th>
<th>Dishonoured Cheques Received</th>
<th>% of Licences Issued</th>
<th>Cheques Written-Off - Number</th>
<th>Cheques Written-Off - Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>35,111,692</td>
<td>130,224</td>
<td>0.37</td>
<td>8,371</td>
<td>£999,000</td>
</tr>
<tr>
<td>1992-93</td>
<td>36,623,570</td>
<td>137,271</td>
<td>0.37</td>
<td>9,019</td>
<td>£1,017,839</td>
</tr>
<tr>
<td>1993-94</td>
<td>35,786,640</td>
<td>125,494</td>
<td>0.35</td>
<td>9,329</td>
<td>£881,761</td>
</tr>
<tr>
<td>1994-95</td>
<td>36,429,552</td>
<td>116,644</td>
<td>0.32</td>
<td>14,319</td>
<td>£1,636,872</td>
</tr>
</tbody>
</table>

Source: Analysis of the Driver and Vehicle Licensing Agency’s records

Note 1: The large increase in the number of cheques written off in 1994-95 was due to a special exercise to write off old fraud cases which were up to three years old.

This figure shows that, between 1991-92 and 1994-95, the number of dishonoured cheques received by the Agency and the amounts written-off in respect of those cheques have remained fairly stable.

2.14 The value of dishonoured cheques represents less than 0.1 per cent of Vehicle Excise Duty, although there are also handling costs and Exchequer interest costs. Further analysis established that, over the last four years, some 79 per cent of cases were resolved either through payment being received or the licence disc being surrendered. However, some £4.5 million has been
written-off over the last four years. Over £1.6 million of this was written-off in 1994-95, due in part to a special exercise by the Agency to write-off old fraud cases held by the police.

2.15 The cheques involving the largest amounts are those for Heavy Goods Vehicles. In 1994-95 the Agency received over 2,800 dishonoured cheques for such vehicles, some 60 per cent of which were received at Vehicle Registration Offices (the remainder at Post Offices). The Agency distribute details of persistent offenders who have presented dishonoured cheques over £600 to their Area offices and to the Department’s Traffic Area Offices. Local office staff require the presentation of bankers drafts or cash before issuing a licence disc in such cases.

2.16 As regards post offices, the Agency’s agreement with Post Office Counters Limited has required the Post Office to carry out checks on cheques presented to them. In the first instance the Post Office pursue all dishonoured cheques presented to them, other than those stolen or forged. The agreement includes performance targets and penalties for failure to achieve the targets, and the Agency regularly monitor compliance. The National Audit Office have confirmed that as a result of the Agency’s checking, payments to the Post Office under the agreement are adjusted regularly to take account of failure to achieve the targets.

2.17 The Agency have considered the use of alternatives to payments by cheque. At present they consider that the transaction costs of alternative payment methods (for example credit or debit cards, or the use of on-line cheque guarantee companies) would outweigh the benefits, given the relatively low proportion of evaders.

(b) Abuse of exemptions and concessions

2.18 This category of evasion involves vehicle keepers who have incorrectly claimed exemptions from, or concessionary rates of, Vehicle Excise Duty. For certain types and uses of vehicles, less than the statutory amount of duty is payable on licensing; for example, agricultural machines that travel no more than 1.5 kilometres between different areas of land occupied by the same person. These exemptions and concessions require a declaration by the vehicle keeper, at the time of licensing. As the number and range of vehicles has grown, so the problems of allocating vehicles to the various tax classes have grown. However, the Finance Act 1995 set out plans to rationalise the system, from 132 to 12 exemption and concession classes.

2.19 Estimating the extent of evasion due to abuse of exemptions and concessions is difficult because if the vehicles are licensed, albeit incorrectly, they cannot be identified as evaders by roadside surveys. The National Audit Office note that routine Department of Transport and Vehicle Inspectorate road safety checks suggest that the level of abuse is less than 1 per cent, but these checks are not specifically designed to test for such abuse.
The Agency regularly review their vehicle register to identify the levels of exemptions and concessions taken up. Those classes most likely to be prone to evasion (for example Heavy Goods Vehicles classed as Private and Light Goods vehicles put to non-commercial use) are more closely scrutinised. When sudden changes in the numbers of exemptions or concessions are noted in a particular geographical area, the local Vehicle Registration Offices and police forces are notified.

(c) Underlicensing by weight

For Heavy Goods Vehicles, an element of the duty payable is dependent on the declared vehicle weight and the axle configuration. Thus duty may be evaded by hauliers claiming an axle configuration different from that which will be used in practice, or by declaring a lower capacity when first licensing than will be used in practice. This can make a considerable difference to the duty payable (Figure 2).

The National Audit Office noted that the Agency are unable to make reliable estimates of the extent of this type of evasion. Evasion can only be identified while the vehicle is in use, and under-declaration of weight may often only be proved by using commercial weighbridges. But the Agency and the police consider that the cost of using weighbridges militates against extensive random enforcement. Again, routine Department of Transport road safety checks have shown no evidence of significant or extensive underlicensing, although these checks are not specifically designed to test for such abuse.

Key points
- Over 36 million licences are issued each year. Less than 0.4 per cent of the cheques received are dishonoured, and the Agency have taken steps to reduce this further. Nonetheless, over 116,000 cheques were dishonoured in 1994-95. In most cases alternative remittances were received, but in the last four years over £4.5 million has been written-off;

- Other forms of evasion - abuse of concessions or underlicensing by weight - are difficult to identify, and the Agency do not therefore have firm estimates of the extent to which they occur. The limited information which the Agency have suggests that these forms of evasion are not widespread.
Part 3: The enforcement arrangements

3.1 This Part is concerned with the work done by the Agency in dealing with evasion - their enforcement work. It looks at:

- the Agency's approach to enforcement;
- the extent to which the Agency are successful in dealing with reported offences;
- the constraints in dealing with reported offences; and
- the cost and benefits of enforcement.

The Agency's approach to enforcement

3.2 A total of 974 staff, about a quarter of the Agency's workforce, are involved in enforcement work, although many help out with work peaks in other areas as necessary. The majority of enforcement work is currently undertaken at the local Vehicle Registration Offices, and at the London Enforcement Office which accounts for a quarter of the work. Staff at these offices liaise with local police and courts. They receive reports of evasion offences, decide which to pursue and take suitable cases forward to prosecution or out-of-court settlement.

3.3 In 1994 the Agency commissioned a review of the future scale and shape of the local office network. The review considered enforcement functions and "transaction" functions - for example, the issue of licences to drivers and vehicle keepers. The main factors leading to the review were the proposed development of Automated First Registration and Licensing - arrangements whereby manufacturers and dealers would handle the first licensing of a vehicle through direct computer links with the Agency's headquarters at Swansea instead of using Area Offices, and the proposed changes in the registration and licensing regime - which should allow simpler enforcement arrangements (paragraph 1.7 and Appendix 3).

3.4 Following the review, the Agency decided to wind down the local office network gradually. This process started in 1994 but is under review pending final decisions on the detail of the future registration and licensing regime and progress in developing Automated First Registration and Licensing, which is currently being trialled.

3.5 Meanwhile, the Agency are exploring the scope for transferring activities such as investigation work and revenue collection to private sector firms. Trials to determine the likely scope, costs and benefits of private sector involvement.
began in October 1995 and are due to be completed by the end of February 1996. In addition, the Agency are looking at alternatives to operating their own prosecution service. They are also looking into a number of ways of strengthening their enforcement activity, for example by developing camera technology for detecting evaders. And following the Finance Act 1994 they will be introducing a pilot wheelclamping scheme early in the new year. Together these measures will help tackle evasion by deterring, identifying and taking action against evaders.

3.6 The Agency's enforcement strategy (Appendix 2) is agreed annually with the Department of Transport, and the Agency's key targets are set by the Secretary of State (see box below). The resourcing assumption underpinning the strategy is that the Agency take a mainly passive role in terms of detecting evasion. Although they encourage Investigation Officers at their local offices to identify cases of evasion whilst undertaking other duties, the main sources of offence reports are police officers and traffic wardens. This reflects the fact that at present an evasion offence occurs, and can only be detected, when an unlicensed vehicle is used on a public road. The Agency do, however, undertake roadside checks and conduct an annual programme of enforcement campaigns, held in conjunction with the police. All evaders caught during these campaigns are prosecuted.

<table>
<thead>
<tr>
<th>Key external performance targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The number of successfully completed enforcement cases.</td>
</tr>
<tr>
<td>• The ratio of revenue raised to the cost of enforcement.</td>
</tr>
</tbody>
</table>

The Agency's achievements against these targets are examined at paragraphs 3.14 to 3.16 and 3.42 respectively.

3.7 The enforcement strategy sets the following priorities:

• offences by operators of heavy goods vehicles, and other cases where high levels of Vehicle Excise Duty have been evaded (paragraph 2.7);

• offences by motorcyclists. Although enforcement in this area is rarely cost effective given the relatively low rates of duty involved, there is persistently high evasion (paragraph 2.7). Thus the Agency give priority to these cases, to promote respect for the law. This approach reflects also a concern on road safety grounds;

• action to discourage the practice of 'month skipping'. The Agency's research on persistent offenders shows that the typical evader is a young male, not evading through poverty, who tends to evade temporarily - that is, who 'skips' a month or two of duty before relicensing;

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cases in all classes where high levels of duty have been evaded, or where evasion has been detected alongside other traffic offences, for example speeding.

3.8 Key points

- The Agency are reviewing the size of their local office network, and are exploring the scope for transferring more of their enforcement work to the private sector;

- Most evasion offences are reported by police and traffic wardens in the course of their normal duties;

- When pursuing offence reports, the Agency have set the following priorities: to pursue offences by operators of Heavy Goods Vehicles, motorcyclists and persistent offenders; to discourage 'month skipping' that is the evasion of Vehicle Excise Duty for a month or two between relicensing; and to pursue cases where other traffic offences are involved.

The extent to which the Agency are successful in dealing with reported offences

3.9 For the purposes of their target for the number of successfully completed cases, the Agency have dealt with an offence report successfully if they penalise evaders through prosecution or out-of-court settlement. As a result of media campaigns, being reported or subsequent enforcement action, vehicle keepers are often induced to relicense for the period evaded without the need for the Agency to take further action. The Agency therefore also have an internal target for the extent of induced relicensing. Figure 9 summarises the steps taken by the Agency on receipt of an offence report.

Figure 9: Steps taken by local office staff on receipt of an offence report

- The vehicle registration number in the offence report is checked against the Agency's Vehicle Register to ensure that the vehicle was, indeed, unlicensed.

- In the case of reports where the owner or driver is not provided, local staff will write to the last recorded keeper on the Vehicle Register to seek further information and, where appropriate, obtain a statement of admission that an offence was committed. With a named report, they will always write to the person interviewed.

- If the last registered keeper sold the vehicle before the date of the offence, or if there is no response to the Agency's letters, local office management will then decide whether or not to pursue the case further. This will depend on the quality of information available, for example, on a subsequent keeper, and on the amount of duty evaded.

- If the keeper admits the offence the Agency staff will, in the less serious cases, offer an out-of-court settlement (based on the back duty due plus an administrative charge). If such a settlement is refused, or if there is a record of a previous offence, the Agency will prosecute.

- For both successful and unsuccessful cases, local office staff will then enter the details of the case onto their computer record of enforcement activity.
3.10 The National Audit Office analysed the numbers of offence reports received by the Agency in recent years, and the outcomes. The outcomes in Figure 10 - case successfully completed, offence report not pursued or offence report pursued but then dropped - reflect the way the Agency maintain their records. Cases of induced relicensing are subsumed within these outcomes, but are identified separately in paragraphs 3.18 to 3.20 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total reports received</th>
<th>Successfully completed cases (Para 3.14)</th>
<th>Reports considered but not pursued: illegible reports, duplicate reports, no offence (Para 3.21)</th>
<th>Cases prosecuted</th>
<th>Cases settled</th>
<th>Out-of-Court</th>
<th>Total reports dealt with (Para 3.13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>91-92</td>
<td>1,559,600</td>
<td>177,300</td>
<td>407,000</td>
<td>242,800</td>
<td></td>
<td></td>
<td>1,163,100</td>
</tr>
<tr>
<td>92-93</td>
<td>1,762,200</td>
<td>193,300</td>
<td>525,700</td>
<td>242,100</td>
<td></td>
<td></td>
<td>1,371,900</td>
</tr>
<tr>
<td>93-94</td>
<td>1,890,800</td>
<td>207,500</td>
<td>763,800</td>
<td>247,800</td>
<td></td>
<td></td>
<td>1,772,700</td>
</tr>
<tr>
<td>94-95</td>
<td>1,669,700</td>
<td>214,400</td>
<td>589,200</td>
<td>243,800</td>
<td></td>
<td></td>
<td>1,614,800</td>
</tr>
<tr>
<td>Total</td>
<td>6,882,300</td>
<td>792,500</td>
<td>2,285,700</td>
<td>976,700</td>
<td></td>
<td></td>
<td>5,922,500</td>
</tr>
</tbody>
</table>

% increase
over the
four year period
7% 9% 45% 69%

Source: Analysis of the Driver and Vehicle Licensing Agency's records

Notes: 1 Cases of induced relicensing are included in columns (a) to (c) - and analysed in paragraphs 3.18 to 3.20
2 Reports received in one financial year, but not dealt with in that year, are recorded as outcomes in the following year.

3.11 Figure 10 shows that although the number of offence reports received by the Agency fell in 1994-95, over the period 1991-92 to 1994-95 the number of reports received increased by 7 per cent. This increase is largely due to the introduction of the Windscreen Warning Notice Scheme (paragraph 3.18), which in 1994-95 accounted for 768,000 - almost half of all the offence reports received by the Agency. Whilst the number of successfully completed enforcement cases has risen by 9 per cent, there have been much larger increases in the numbers of cases not pursued and those cases pursued but then dropped. There has, however, also been a significant increase in the number of cases of induced relicensing.

3.12 Against this background the National Audit Office examined:

- the Agency's progress in dealing with the offence reports received;
• whether the Agency have met their target for successfully completed cases;
• whether the Agency have met their target for induced relicensing;
• the reasons for offence reports not being pursued; and
• the reasons for offence reports being pursued but then dropped.

(a) Progress in dealing with offence reports

3.13 The National Audit Office considered whether the Agency were keeping up to date with the large numbers of offence reports received. In the period 1991-92 to 1994-95 the number of reports dealt with was 959,800 less than the number received around six months' worth (excluding any carried forward at the start of the period). The National Audit Office considered, therefore, whether there was a risk that reports might become 'time expired'. They noted, however, that this does not happen until six months after the Agency have confirmed against their records that the vehicle was unlicensed - this is the point at which the Agency establish that an offence has been committed. In 1994-95 the Agency had around 30,000 time expired cases but their records did not distinguish between delays attributable to the Agency and cases returned unheard by the courts which could not be presented again within the time limit.

(b) Successfully completed cases

3.14 The National Audit Office examined the Agency's achievements against this key external performance target for the period 1991-92 to 1994-95 inclusive. The results in Figure 11 opposite show that the target has increased each year and the Agency have consistently exceeded it. Overall the target has increased by 14 per cent compared with the overall seven per cent increase in the number of offence reports received. To verify that the Agency's record of successful cases was accurate, the National Audit Office examined 100 successful cases and checked the computer record against the supporting case file. In all cases the Agency's database correctly recorded the case details.

3.15 In deciding whether to pursue cases the Agency give priority to those involving Heavy Goods Vehicles, motorcycles and persistent evaders - the priority groups in paragraph 3.7. For these groups a number of factors influence whether the Agency settle out-of-court or prosecute. For example, evaders will be prosecuted if they have refused an out-of-court settlement or if they are persistent offenders.

3.16 The National Audit Office analysed the Agency's records to establish the extent to which cases in the priority groups are pursued to a successful conclusion. They noted that over the last four years, 43 per cent of Heavy Goods Vehicle cases pursued were successfully completed, and 63 per cent of motorcycle cases pursued. This compares with 45 per cent of all cases pursued being successfully completed, including the Heavy Goods Vehicles and motorcycles completions. The Agency's records are not maintained in a way which allows such analysis
This figure shows that the target for successfully completed cases has risen each year, and has been consistently achieved.

3.17 The Agency's ability to proceed to prosecution depends on the quality of the evidence. Both the quality and number of reports vary between police forces, according to the priority attached to detecting evasion by each force. The Agency hold regular liaison meetings with the police to discuss a number of issues, including ways to improve the quality of offence reports. (The quality of offence reports is examined further in paragraphs 3.23 to 3.26.) Relatively few cases fail once they have reached the courts - on average 7 per cent of cases are unsuccessful at that stage.

(c) Induced relicensing

3.18 As mentioned in paragraph 3.9, many evaders are induced to relicense. And in February 1993 the Agency and the police launched a new joint initiative, the Windscreen Warning Notice Scheme, to induce evaders to relicense voluntarily. This followed successful trialling of the scheme with 20 police forces over the previous year. The scheme involves prominent warning notices being fixed to
the windscreens of unattended and apparently unlicensed vehicles, urging motorists to buy a licence disc immediately. An offence report is subsequently sent to the Agency.

3.19 If the vehicle has been relicensed on being reported, the Agency may not pursue the offence report, and if the vehicle is relicensed later, whilst the Agency are pursuing the evader, the case may be dropped. The National Audit Office suggest that in these circumstances it is important to ensure that offenders do not see voluntary relicensing as a soft option. The Agency recognise this and pursue all cases in the priority groups, although this does not necessarily result in prosecution or out-of-court settlement (paragraph 3.16).

3.20 Figure 12 shows the Agency's internal target for induced relicensing. The increase in achievement in 1993-94 and 1994-95 was largely due to the Windscreen Warning Notice Scheme. The Agency's 1994-95 achievement was greater than the previous year, although slightly below target - reflecting their view that police interest in the scheme has levelled off. There was a 12 per cent reduction in the total number of offence reports received during this time.

![Figure 12: Induced relicensing](image)

Source: Driver and Vehicle Licensing Agency

This figure shows that since 1992-93 the Agency have set increasing targets for induced relicensing.
(d) Reports not pursued

3.21 The National Audit Office noted that in the period 1991-92 to 1994-95 some 33 per cent of the offence reports received by the Agency were not pursued, and that the number of such cases had risen by 45 per cent over the period (Figure 10). In many cases this is unavoidable, and can reflect a satisfactory outcome (Figure 13).

![Figure 13: Reasons for discarding reports](image)

Source: Driver and Vehicle Licensing Agency

This figure shows that the number of discarded reports increased from about 407,000 in 1991-92 to over 589,000 in 1994-95. The main causes of discarded reports varied over the years and the trends are covered in more detail in paragraph 3.22.

3.22 The main reasons for not pursuing offence reports are:

a) vehicles without a valid licence disc displayed, but which turn out to be currently licensed - that is, there is no evasion offence. The Agency estimate that generally around eight per cent of offence reports fall into this category. Failure to display a valid licence is, however, a criminal offence which is pursued directly by the police who can issue a fixed penalty;
b) reports that do not include a valid registration number, relate to foreign vehicles, or are illegible or unsigned by the police officer or traffic warden. Over the period 1991-92 to 1994-95, these accounted for 22 per cent of all discarded reports, peaking at over 259,000 cases in 1993-94. The Agency's records were not maintained in a way which allowed more detailed analysis of the reasons. But the Agency state that a small number are low value, unnamed cases not pursued for reasons of resource.

It is not possible to put a precise figure on the revenue foregone, but the National Audit Office calculate that, if reports in this category over the last four years had raised the same revenue as successfully completed cases, these poorly completed cases could represent some £13 million in revenue foregone. However, the Agency consider that, given the likely low value of some cases, the revenue actually foregone is likely to be less than this. There would also be extra costs involved in the collection of this revenue, which would reduce further the net income derived from pursuing them:

c) vehicles that were relicensed following the offence report. This category included some 136,300 cases in 1994-95 and the large increase since 1992-93 is due to the Windscreen Warning Notice Scheme;

d) a variety of other reasons, including multiple reports on the same vehicle. In these cases only the most recent report is pursued.

3.23 The Agency attribute the large increase in the number of reports not pursued between 1992-93 and 1993-94 principally to the increased number of reports under the Windscreen Warning Notice Scheme. But as the number of reports produced has grown, there has been a consequential increase in illegible and duplicate reports. The Agency have sought to stress the importance in general terms of the accuracy of reports with police forces. However, they are willing to accept that there will be large numbers of reports which they cannot pursue as long as the overall number of reports received is increasing - because this in itself is indicative of the level of on the ground enforcement activity, and it is easier for the Agency to check for duplicates using their computer systems, than for police officers and traffic wardens on the ground.

(e) Reports pursued but subsequently dropped

3.24 In the period 1991-92 to 1994-95 the number of offence reports dropped after initially being pursued by the Agency has increased by 69 per cent, and represented 27 per cent of the reports received by the Agency (Figure 10). Around 567,000 reports were dropped after initial action in 1994-95. This can occur where evaders have relicensed voluntarily, the Agency cannot trace the offenders or the cost and difficulty of pursuing the case further becomes too great. A long-standing problem for the Agency has been the number of offence reports which do not include the name of the vehicle keeper or driver - 'unnamed' reports. The vehicle registration number alone is often not sufficient for the Agency to trace the owner.
3.25 Currently about 70 per cent of offence reports received by the Agency do not include the name of the vehicle driver or keeper, and it has been at this level for at least six years. 'Unnamed' reports received under the Windscreen Warning Notice Scheme were largely responsible for the large increase in cases dropped in 1993-94 and 1994-95 (Figure 10). It is in the nature of the scheme, which has boosted the amount of induced relicensing, that notices are attached to unattended vehicles. But even when unnamed Windscreen Warning Notice reports are excluded, the proportion of unnamed reports is around 55 per cent.

3.26 The Agency encourage police forces to identify and interview the driver of the vehicle wherever possible before issuing an offence report. The importance of this was illustrated by an Efficiency Scrutiny in 1990 which found that 86 per cent of named cases resulted in prosecution or out-of-court settlement. In a sample of 529 dropped cases examined by the National Audit Office (paragraph 3.28), 76 per cent were unnamed - although other factors also came into the decision to drop these cases.

3.27 **Key points**

- In 1994-95 some 1.7 million offence reports were received by the Agency, an increase of 7 per cent since 1991-92 - although this figure is 12 per cent below the number of reports received in 1993-94. Reports from the Windscreen Warning Notice Scheme accounted for almost half of the reports received;

- In the period 1991-92 to 1994-95 the Agency received 6.9 million offence reports and dealt with 5.9 million;

- The Agency's external target for successfully completed cases and their internal target for induced relicensing have risen each year in the period 1991-92 to 1994-95. The target for successfully completed cases has been consistently achieved. Out of the 1.7 million offence reports received in 1994-95, over 458,000 were successfully prosecuted or settled out-of-court. The target for induced relicensing was achieved in two of the last three years;

- As the Agency do not always pursue the case further where the evader has been induced to relicense voluntarily, it is important that offenders do not see this as a 'soft option'. However, the Agency will pursue the case if it falls into one of the priority groups;

- Since 1991-92 some 33 per cent of offence reports received have not been pursued. In many cases the vehicle was found to be correctly licensed or the vehicle was relicensed and no further enforcement action was deemed necessary. But in the other cases they were discarded because they were either illegible or incorrectly completed. It is not possible to put a precise figure on the revenue foregone, but if these

*continued...*
cases raised the same revenue as successfully completed cases the
National Audit Office calculate that these poorly completed reports could
represent some £13 million in revenue foregone;

- Around 567,000 offence reports received by the Agency in 1994-95
  were dropped after initially being pursued. This is mostly due to the
  quality of evidence available, the amount of back duty involved or the
costs and difficulty of pursuing the case further; and

- Offence reports which include the identity of the driver or keeper are far
  more likely to result in a prosecution or out-of-court settlement than
  'unnamed' reports. But the proportion of unnamed offence reports has
  remained at about 70 per cent for a number of years.

The constraints in dealing with reported offences

3.28 In view of the significant numbers of offence reports not successfully pursued,
the National Audit Office examined in detail a random sample of such cases.
The aim was to obtain a more detailed understanding of the reasons than was
possible from the Agency's computer record. The National Audit Office did not
seek to second-guess the decisions of local managers.

3.29 The National Audit Office requested all cases dropped by the selected local
offices in the same random week. From these, a total of 529 cases were selected
and examined across 19 of the 52 Vehicle Registration Offices (Appendix 4). The
cases were selected randomly and the sample of Vehicle Registration Offices
was designed to be representative of all local offices. The results are
summarised in Figure 14 overleaf.

3.30 In the cases examined by the National Audit Office the main reasons for cases
being dropped were as follows:

- 27 per cent of the cases sampled (Category 2 in Figure 14) were abandoned
  because the Agency's standard letter could not be delivered or there was no
response. In the cases of non delivery it was usually the Post Office who
returned the letter, and marked the reason on the envelope - eg "gone away",
"not known at this address", "address incomplete/ incorrect". Once the
Agency's record of the address of the named driver or last registered keeper
was shown to be inadequate, the Agency had little or no reliable evidence on
which to proceed. In these cases they had decided that it was not
cost-effective to take the case further;

- in a further 10 per cent of cases (Category 3), although the standard letter
  could not be delivered or received no response, a local manager had judged a
visit to be potentially worthwhile - either by one of Agency's Investigation
Officers or a police officer, depending on local practice. These cases were
dropped after the visit failed to secure the whereabouts of the last registered
keeper;
**Figure 14: Reasons for failure of a sample of cases pursued then dropped**

<table>
<thead>
<tr>
<th>Category</th>
<th>Explanation</th>
<th>Number of cases</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pursuit made in connection with a more recently reported incident (i.e. duplicate reports)</td>
<td>24</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>The Agency sent standard letter but this could not be delivered to the addressee, or received no response; visit judged uneconomic</td>
<td>141</td>
<td>27%</td>
</tr>
<tr>
<td>3</td>
<td>The Agency sent standard letter but this could not be delivered to the addressee or received no response; visit made but unsuccessful</td>
<td>53</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>Reply to initial (subsequent) communication; specific exemption from prosecution argued and agreed by Agency or offence admitted but not pursued on compassionate grounds</td>
<td>10</td>
<td>2%</td>
</tr>
<tr>
<td>5</td>
<td>Reply to initial (or subsequent) letter; the alleged offender demonstrated to the Agency’s satisfaction that no offence occurred or that the vehicle had been relicensed.</td>
<td>92</td>
<td>17%</td>
</tr>
<tr>
<td>6</td>
<td>Reply to initial or subsequent letter; no information (e.g. subsequent keeper details) provided by the last respondent</td>
<td>75</td>
<td>14%</td>
</tr>
<tr>
<td>7</td>
<td>Reply to initial communication; information provided by last respondent but pursuit judged uneconomic</td>
<td>118</td>
<td>22%</td>
</tr>
<tr>
<td>8</td>
<td>Case prepared for prosecution but not heard by the court (out of time, evidence incomplete etc)</td>
<td>16</td>
<td>3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>529</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: National Audit Office sample*

- In 36 per cent of the cases (categories 6 and 7) there had been a reply to an initial letter, normally stating that the addresssee was no longer the current keeper. However, the information provided on the subsequent keeper had been inadequate to pursue the case. The Agency judged that they could not prove, to a court’s satisfaction, who was the actual keeper of the vehicle at the time of the alleged offence. The sample showed that there had been many attempts to follow leads on potential evaders, which the Agency had to drop on cost effectiveness grounds.

- In 17 per cent of cases, the incident had either proved not to be an offence or had resulted in induced relicensing during the course of the enforcement process (Category 5). The latter score against the Agency’s target for induced relicensing. The other main reasons were cases of non-display proving not to be excise evasion offences and individuals producing reasonable explanations or alibis.
3.31 In summary, the National Audit Office examination demonstrated that the majority of the cases they examined were unsuccessful because the Agency were unable to trace, or serve papers on, the appropriate keeper. A key factor was the quality of the Agency's vehicle register.

Accuracy of the Agency's vehicle register

3.32 The Agency are aware that not all vehicle records are accurate, with many proving to be of limited use in identifying the current keeper or location of a vehicle. For unlicensed vehicles the inaccuracies are due mainly to keepers failing to notify vehicle transfers, disposals or vehicles being scrapped. An Efficiency Scrutiny in 1990 estimated that some 50 per cent of current keepers of unlicensed vehicles in use are not registered at the Agency and this was confirmed in a study commissioned by the Agency in 1994.

3.33 Further National Audit Office analysis of the 529 cases they examined, showed that in 56 per cent of cases (almost 300 cases) the vehicle register was not completely accurate - (categories 6 and 7 of Figure 14, and some of categories 2 and 3). The figure could be higher, as failure to deliver the Agency's standard letters may indicate that the recorded address for the registered keeper is incorrect. As there may be additional reasons for some of these cases being dropped, it is not possible to make a precise calculation of the revenue lost as a result of inaccuracies in the vehicle register. The National Audit Office estimate that the gross loss could have been in the region of £20 million in 1994-95, but there would have been additional costs if the cases had been pursued, and the Agency doubt that significant net revenue would have been generated from them.

3.34 Of the approximately 300 cases where the vehicle register was inaccurate, over 80 per cent were due to failure to notify the Agency either of a change in address of the current keeper or that the vehicle had been transferred. Failure to notify the Agency of changes in keeper details is a criminal offence for which there is a penalty of up to £1,000. In addition to the effect this has on Vehicle Excise Duty enforcement efforts, a recent Home Office Research and Planning Unit report estimated that a quarter of defendants summonsed to court on motoring offences had the case against them dropped by the Crown Prosecution Service because they could not be traced. The report expressed concern that many addresses held by the Agency were incorrect, and recommended that, to reduce the proportion of untraceable defendants, the police should seek confirmation of addresses by other means. Nevertheless, seeking to redress this could have significant resource implications for the police.

3.35 Two particular aspects of the current enforcement arrangements have a bearing on the Agency's attempts to clean up their vehicle register:

- first, there is no requirement for evaders to relicense their vehicle after prosecution. Vehicle Excise Duty is a tax on use, and without evidence of such use, there cannot be such a requirement. Studies undertaken by the Agency have suggested that only some 30 per cent of evaders relicense their vehicles after prosecution. Also, if the keeper details on the vehicle register
were not accurate before the case, they will not be updated unless the vehicle is relicensed. Currently the Agency require the keeper’s consent before updating their records. Local office staff do keep unconfirmed keeper details, obtained as part of the enforcement process. This information can prove useful in following up future offences, and can be made available to the police;

- second, the Agency do not prosecute cases of failure to notify a vehicle transfer - even when there is clear evidence that an offence had been committed - unless there is also evasion of duty involved. They state that such action would increase the Agency’s costs and take up scarce court time. The Agency and the Department consider that it would also deflect valuable resources away from direct forms of enforcement which they believe are more cost effective under the existing legal framework. Nevertheless, in 1994-95 the Agency prosecuted nearly 38,000 such registration offences jointly with evasion offences. The Agency consider that taking action in this way is the most cost-effective means of enforcing registration offences.

3.36 The planned introduction of Joint Notification, which requires both the acquirer and disposer of a vehicle to notify the Agency of vehicle transfers (Appendix 3) should improve the level of notifications of transfers in future. However, it would not help with the current high rate of failure to notify address changes.

3.37 In addition to out of date keeper information on unlicensed vehicles, the Agency have a wider problem in terms of the accuracy of their vehicle register. Out of a total of 48 million vehicles currently on the Agency’s register, about 23 million are unlicensed. The Agency believe that most of these have been scrapped, but that some will have been exported without notification. As part of the proposals for Joint Notification, the Agency plan to introduce new arrangements to improve the notification of scrapped vehicles.

3.38 The efficient operation of the Government’s proposals for Statutory Off Road Notification (Appendix 3) would be dependent on the Agency’s vehicle register being up to date because the Agency would need to identify, and follow up, cases where no licence had been issued. However, the introduction of the off road notification arrangements should in itself help with the updating as the registered keepers would have a direct financial incentive to notify the Agency when they have disposed of a vehicle (Appendix 3, paragraph 4). Clearly though, with so many unlicensed vehicles currently on the register, the updating process is going to take time.

3.39 **Key points**

- In a sample of 529 unsuccessful cases examined by the National Audit Office, over half were dropped due to the inability to locate the current keeper of the vehicle. This was largely due to the vehicle register not being up to date;

- inaccuracies in the vehicle register are mainly due to keepers not notifying address changes or vehicle transfers. This also hinders the pursuit of drivers for other traffic offences;  

*continued...*
The costs and benefits of enforcement

3.40 In their 1986 report on evasion, the Committee of Public Accounts commented that despite additional enforcement efforts, there had been no significant reduction in the overall level of evasion. They saw a need for more convincing results as to the effectiveness of the Department's efforts, and for continuing efforts to improve productivity (Appendix 1).

3.41 In response the Department pointed to, amongst other things, expected growth in the numbers of successfully completed cases, and this is reflected in their key performance targets. Over the period 1991-92 to 1994-95 the number of successful cases rose by 9 per cent, the Agency's enforcement costs fell by 2 per cent in real terms and the number of staff in post fell by 4 per cent to 974. But whilst the number of successfully completed cases has increased, and revenue from induced relicensing has also increased, the estimated level of evasion has continued to rise (Figure 3 above). That is why the Agency and the Department are considering changes to the basis on which duty is levied (Appendix 3).

3.42 One of the two key external performance targets set by the Secretary of State is the ratio of revenue raised to the cost of enforcement. The Agency have also set a related internal target for the amount of revenue raised through enforcement. Their performance against these two targets over the period 1991-92 to 1994-95 is set out in Figure 15 opposite. The targets for the ratio of revenue raised to the cost of enforcement have been met. The revenue has more than doubled over the period, although the internal revenue target was missed in 1994-95. Figure 16 opposite provides a breakdown of the Agency's revenue in 1994-95.

3.43 It is important that the Agency's target for successfully completed cases be supported by targets which focus on whether resources are used cost effectively, but the National Audit Office suggest that the cost and revenue targets need to be viewed with some caution because performance against them is not fully within the Agency's control.
Figure 15: Cost and revenue targets

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<tbody>
<tr>
<td>Revenue to</td>
<td>Not set</td>
<td>N/A</td>
<td>Not set</td>
<td>2:1</td>
<td>2:1</td>
<td>2:6</td>
<td>2:6</td>
<td>2:7</td>
</tr>
<tr>
<td>enforcement cost ratio</td>
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<tr>
<td>Revenue raised through</td>
<td>£32m</td>
<td>£38m</td>
<td>£46m</td>
<td>£55m</td>
<td>£59m</td>
<td>£67m</td>
<td>£70m</td>
<td>£69m</td>
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<td>enforcement (adjusted</td>
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<td></td>
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<td></td>
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<tr>
<td>to 1994-95 prices)</td>
<td></td>
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</table>

Source: Driver and Vehicle Licensing Agency

Note: The revenue to enforcement cost ratio became a key enforcement target in 1994-95.

Figure 15 shows that targets for the ratio of revenue raised to enforcement cost have been met. It also shows that revenue raised from enforcement has doubled since 1991-92, although the internal revenue target was missed in 1994-95.

Figure 16: Breakdown of revenue raised in 1994-95

TOTAL REVENUE - £68.5 million

- Fines awarded in prosecutions: £19 million
- Induced relicensing: £22 million
- Costs awarded in prosecutions: £4.9 million
- Sums from out-of-court settlements, including back duty: £12.3 million
- Back duty recovered: £10.3 million

Source: Driver and Vehicle Licensing Agency

This figure provides a breakdown of revenue raised by the Agency in 1994-95.
The revenue includes the full value of fines, back duty penalties and costs awarded by the courts (Figure 16) - the levels of which are decided by the courts, and are therefore beyond the Agency's control (and beyond the Government's direct control, as magistrates are judicially independent). The Agency do, however, make efforts to maximise revenue for example through prioritising cases, through the Windscreen Warning Notice scheme and through campaigns;

because of the high evasion rate among motorcyclists, the Agency pursue all offence reports received in this category, although with the relatively low rates of duty involved it is often not cost effective to do so.

3.44 The Committee of Public Accounts in their 1986 report on evasion (Appendix 1) drew attention to the low average level of fines awarded - £34 a case (or £52 at 1994-95 prices). By 1994-95 the average had risen to £86, which compared with the annual licence fee of £135 for Private and Light Goods vehicles. Evaders also have a liability to pay an additional amount which takes account of the full period the vehicle has remained unlicensed. A legislative change in 1987 strengthened this provision by removing the defence that the vehicle had been off the road. The Court must now order the payment of the full penalty unless the offender can prove he was not the keeper or that duty had been paid. In addition the offenders are required to pay costs. The average total penalty payable in 1994-95 was £160. The current maximum fine is £1,000 but has never been imposed by the courts.

3.45 Key points

- The Agency have improved their productivity in recent years. They are completing more cases, with fewer staff and at lower cost. Their target for the ratio of revenue to cost has been met or exceeded since 1991-92 - though in practice the Agency have little control over revenue raised.

- Despite productivity gains by the Agency, evasion is continuing to rise. Thus the Agency and the Department are considering major changes to the existing licensing arrangements. These are covered in Appendix 3.

- The average level of fine imposed by the courts has risen in real terms since the Committee of Public Accounts examination in 1986, but at £86 it is less than the duty rate for a private car. Despite rising evasion, the maximum penalty has never been imposed.
## Appendix 1

This Appendix sets out the main conclusions and recommendations in the Committee of Public Accounts 50th Report, Session 1985-86 (HC 480), and the Department of Transport's response in the Treasury Minute dated 4 February 1987. It also cross refers, where appropriate, to relevant paragraphs in this report.

### Conclusion/Recommendation | Treasury Minute Response | Report Reference
---|---|---
1. We welcome the Department’s assurance that they regard evasion of £100 million a year as too high; we share their concern and endorse their determination to take effective action to reduce it. | The Department welcomes the Committee’s endorsement of its determination to reduce the present level of evasion, and their recognition of the important road safety implications which are associated with vehicle licensing. A statistical system is being developed for monitoring movements in the level of evasion both nationally and locally using the central Driver and Vehicle Licensing Centre record. This system will identify trends which would indicate the need for further comprehensive surveys, and will also provide more sensitive evaluation of the results of special campaigns, and other intensive enforcement efforts in identified high risk areas. | Paragraphs 2.2 to 2.9

2. The 1984 survey has provided more analysed information on the extent and characteristics of evasion, and this will help to target enforcement measures more effectively. Some of the results we regard as disturbing. It will be necessary to continue to monitor the situation, and keep such information up-to-date with further surveys from time to time. | The Department is continuing to improve enforcement performance and productivity. The number of cases concluded successfully in 1985-86 is expected to be at least 70% higher than that achieved in 1982, and some 11% above the 1985 results. The performance targets will be further increased for 1987-88. A programme to install computer terminals in local offices over the next 2 years will improve efficiency further, and other proposals for making increased use of new technology are being developed. The Committee’s report, and its previous report in 1984 (HC 243), have been referred to the Road Traffic Law Review. | Paragraphs 1.6, 3.14 to 3.18, and 3.40 to 3.43

3. Despite the additional efforts on enforcement being made by the Department, it is disappointing that there has as yet been no significant reduction in the overall level of evasion. More convincing results as to the effectiveness of the Department’s efforts are needed. | The Committee recognises the key role played by the police in enforcing Vehicle Excise Duty and the generally good relationships which have been developed. Regular liaison at all levels is helping to improve co-operation further. All the police forces in England and Wales which have not so far held a special campaign have agreed to take part in the 1987 programme, and a trial campaign will be held in Scotland. A regular programme of local road checks is being developed in conjunction with the Metropolitan police supplementing the major annual campaign in the capital. A number of other experiments are being conducted in co-operation with police forces designed to produce more named reports. | Paragraphs 3.23 and 3.26

4. Given the increasingly marginal returns from devoting more resources to enforcement than the 900 extra staff already proposed, it is important for the Department to continue and extend their efforts to improve productivity and to concentrate on high risk areas, set demanding targets and explore the scope for exploiting modern technology. |  |

5. The police have a key role in the enforcement of Vehicle Excise Duty; we are glad to see that their relationships with the Department have been generally good and improving, and we urge closer co-operation in a number of areas. |  |
<table>
<thead>
<tr>
<th>Conclusion/Recommendation</th>
<th>Treasury Minute Response</th>
<th>Report Reference</th>
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<tbody>
<tr>
<td>6. In our view the present derisory levels of some fines for non-payment of Vehicle Excise Duty are virtually an encouragement to evasion and certainly no deterrent. We endorse the Department's views on this matter and wish our own concern to be brought separately to the attention of the Home Office and the Magistrates Association.</td>
<td>The Committee's concern about the low average level of fines for Vehicle Excise Duty offences, endorsing the Government's own views, is being drawn to the attention of the Magistrates Association and to the appropriate representative bodies in Scotland. The Government is also considering whether further legislative measures are needed to strengthen the penalties against evasion.</td>
<td>Paragraph 3.44</td>
</tr>
<tr>
<td>7. We note the Department's willingness to consider the introduction of an administrative charge for Vehicle Excise Duty refunds and look forward to being informed of their decision in due course.</td>
<td>The Government is reviewing the implications of introducing an administrative charge for refunds of Vehicle Excise Duty, and will announce its decision in due course.</td>
<td>Paragraphs 3.5 and 3.44</td>
</tr>
<tr>
<td>8. We note the absence of information on the calculations or considerations on which all of the possible alternatives to Vehicle Excise Duty have again been rejected. We have ourselves identified a number of factors which indicate some continuing possibilities. We note that the position on alternatives to Vehicle Excise Duty has not been permanently settled.</td>
<td>The present basis of Vehicle Excise Duty is reviewed periodically, as are all taxes. In addition, the review of the vehicle registration system which the Government is currently conducting will take account of the appropriate points which were raised by the Committee during their examination.</td>
<td>Appendix 3</td>
</tr>
</tbody>
</table>
Appendix 2

Enforcement strategy statement: summary

The following is a summary of the annual enforcement strategy for 1994-95 prepared by the Agency and agreed with the Department.

Vehicle Excise Duty enforcement

The prime customer for enforcement activity is the Exchequer and the principal objective of the Driver and Vehicle Licensing Agency’s Vehicle Excise Duty enforcement strategy is to encourage motorists to license their vehicles in accordance with the law.

Consulting enforcement customers

In order to provide optimum service to the Driver and Vehicle Licensing Agency’s customers consultation is an important and necessary pre-requisite. A policy value indicator matrix is drawn up annually to assist in this process.

The benefits from Vehicle Excise Duty enforcement are:

(i) collecting revenue
(ii) penalising offenders
(iii) maintaining an up-to-date register
(iv) aiding road safety through increasing compliance with MOT and insurance requirements.

Deterring evasion and penalising evaders

The Agency use two methods to deter evasion, campaigns and the windscreen warning notice scheme. Both encourage voluntary relicensing by warning motorists of the penalties if caught.

The Agency supplements the deterrent measures through a rigorous system to penalise evaders.

Detection of unlicensed vehicles

The majority of unlicensed vehicles detected are unnamed, although the Agency encourage the police to secure, wherever possible, an interview with the driver.
Who to pursue

Priority is given to cases involving:-

(i) other traffic offences.

(ii) Heavy Goods Vehicles.

(iii) High levels of Vehicle Excise Duty evaded.

(iv) Motorcycles.

(v) Persistent offenders.

How to pursue

The Agency penalise offenders either through out-of-court settlements and, in the more serious cases, by prosecution.
Appendix 3

Statutory Off Road Notification and new arrangements for vehicle registration.

Statutory Off Road Notification

1 In July 1994 the Government announced proposals to change the arrangements for licensing vehicles to help:

- cut Vehicle Excise Duty evasion; and
- improve the accuracy of the Agency's vehicle register and increase its value to the police in fighting crime.

2 A consultation paper on the new arrangements was issued to interested parties in March 1995. In summary, the Government intended to retain Vehicle Excise Duty in its present form for vehicles used on the roads, but vehicles not used on the roads would also have had to be licensed at little or no cost. The new proposals would have applied to cars, vans and motorcycles but not to buses or Heavy Goods Vehicles over 12 tonnes.

3 At present renewal reminders for Vehicle Excise Duty are automatically sent to vehicle keepers unless they have notified the Agency of a change in keepership, or that the vehicle has been exported or scrapped. At present the Agency cannot chase up those who do not relicense because if the vehicle has been taken off the road no action is required by the keeper. On 28 November 1995, the Chancellor of the Exchequer announced revised proposals - Statutory Off Road Notification, under which keepers taking vehicles under 3.5 tonnes off the road will need to declare to the Agency that their vehicles have been taken off the road. Where the Agency know that a licence has not been renewed they will be able to follow this up.

4 As Statutory Off Road Notification will allow the Agency to identify and pursue motorists who have failed to relicense their vehicles, the need for on-road enforcement will reduce. Until the Agency have been notified that the keeper has changed or the vehicle is not to be used on the road, the keeper in theory will be liable to pay Vehicle Excise Duty.

Joint notification

5 Also in July 1994 the Government announced plans to introduce changes to the vehicle registration arrangements. It is proposed that keepers disposing of a vehicle will be responsible for providing the Agency with details of the new keeper. This would improve the accuracy of the Agency's vehicle register and a consultation paper was issued to interested parties in March 1995.
At present the disposer and acquirer of a vehicle notify the Agency separately. Only half the old keepers notify the Agency immediately that they have disposed of the vehicle. Although 70 per cent of new keepers notify acquisition within a month, the remainder can take up to a year. This failure to notify promptly is the single most likely reason for the vehicle register being out of date.

Joint Notification will require the acquirer and the disposer to notify the Agency of the vehicle transfer at the same time and on the same form. The disposer will be required to ensure that the new keeper details are complete and it will be the disposer's responsibility to send the form to the Agency.

The Agency have also announced improvements to the arrangements for the notification of scrapped vehicles. The time between the introduction of Joint Notification and Statutory Off Road Notification is to allow time for Joint Notification to have an effect in bringing the Agency's vehicle register up-to-date and improving its accuracy.
Appendix 4

Results of National Audit Office examination of unsuccessful cases

The table below summaries the results of the National Audit Office examination of a sample of 529 unsuccessful cases of Vehicle Excise Duty enforcement. These cases were selected to represent three strata of the Agency's operations:

a) offices dealing with fewer than 10,000 cases per annum (Aberdeen, Dundee, Exeter, Haverfordwest, Northampton, Oxford, Taunton, Truro and Worcester);

b) offices dealing with more than 10,000 cases per annum (Coventry, Edinburgh, Leeds, Luton, Manchester, Middlesborough, Nottingham, Preston and Stoke); and

c) the London Enforcement Office, which deals centrally with enforcement cases for all the local offices in Greater London. This office handles about a quarter of the Agency's cases.

A random sample of 20 abandoned cases (or all cases if fewer than 20) was taken from each office (172 for London) for the same random week.

The cases were examined to identify into which category of cause of failure they fell.

<table>
<thead>
<tr>
<th>Vehicle registration office</th>
<th>Case number</th>
<th>Reason for failure</th>
<th>Total cases sampled</th>
</tr>
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<tbody>
<tr>
<td>Aberdeen</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Coventry</td>
<td>3</td>
<td></td>
<td></td>
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<tr>
<td>Dundee</td>
<td>6</td>
<td></td>
<td></td>
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<tr>
<td>Edinburgh</td>
<td>1</td>
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<tr>
<td>Exeter</td>
<td>2</td>
<td></td>
<td></td>
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<tr>
<td>Haverfordwest</td>
<td>6</td>
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<tr>
<td>Luton</td>
<td>4</td>
<td></td>
<td></td>
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<tr>
<td>Manchester</td>
<td>1</td>
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<td></td>
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<tr>
<td>Middlesborough</td>
<td>6</td>
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<tr>
<td>Northampton</td>
<td>7</td>
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<tr>
<td>Nottingham</td>
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<tr>
<td>Oxford</td>
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<tr>
<td>Preston</td>
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<td>Stoke</td>
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<td>Taunton</td>
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<tr>
<td>Truro</td>
<td>4</td>
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</tr>
<tr>
<td>Worcester</td>
<td>2</td>
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<td></td>
</tr>
<tr>
<td>London</td>
<td>8</td>
<td></td>
<td></td>
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<tr>
<td><strong>TOTAL CASES</strong></td>
<td><strong>24</strong></td>
<td><strong>141</strong></td>
<td><strong>16</strong></td>
</tr>
</tbody>
</table>

%  
(5%) (27%) (10%) (2%) (14%) (17%) (100%)
Reason for failure codes

1. Pursuit made in connection with a more recent report for the same vehicle therefore the earlier case was dropped.

2. Agency's standard letter not delivered or received no response; a follow-up visit was not judged economic.

3. Agency's standard letter not delivered or received no response; follow-up visit made but unsuccessful.

4. Reply to initial (or subsequent) letter: Specific exemption argued and agreed or case not pursued on compassionate grounds.

5. Reply to initial (or subsequent) letter: The offender demonstrated to the Agency's satisfaction that no offence had occurred or had relicensed the vehicle.

6. Reply to initial letter but no information (eg subsequent keeper details) provided by the last respondent.

7. Reply to initial letter. Information provided but further pursuit of case judged uneconomic.

8. Case taken to prosecution but not heard by court (eg out of time, evidence incomplete etc).