

DRIVER AND VEHICLE LICENSING AGENCY (DVLA)

2002-03 TRUST STATEMENT

Report by the Comptroller and Auditor General

DRIVER AND VEHICLE LICENSING AGENCY: 2002-2003 TRUST STATEMENT

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

Part 1: Introduction

1. This report addresses my annual examination of the 2002-03 Trust Statement prepared by the Driver and Vehicle Licensing Agency (the Agency), an on-vote executive agency of the Department for Transport (the Department). The Trust Statement brings to account the Vehicle Excise Duty (VED) revenue collected by the Agency and surrendered to the Consolidated Fund, and is prepared on a cash receipts and payments basis.
2. Under the Accounts Direction issued by the Treasury on 1 May 2001, and in accordance with section 2 of the Exchequer and Audit Departments Act 1921, I am required to form an audit opinion as to whether or not the Trust Statement properly presents the collection and allocation of taxes administered by the Agency and to ascertain whether, in all material respects, the receipts and payments shown in the Account have been applied to the purposes intended by Parliament. My role and responsibilities as external auditor and the basis for my audit opinion are set out on pages [xx] to [yy] of the Agency's Accounts.
3. In line with other revenue-raising departments, the Agency intends to move its Trust Statement onto an accruals account basis in future years. The Agency aims to be able to publish accruals based accounts with effect from the 2003-04 financial year. My staff are working closely with the Agency on this significant change in the basis of preparation, and later this year will scrutinise an unpublished 'dry run' accruals account for 2002-03, which is currently being prepared by the Agency.

My opinion on the 2002-03 Trust Statement

4. In forming my opinion as to whether the Agency has in place an effective check on the assessment, collection and allocation of revenue and whether procedures are duly being carried out, I am required to examine how the Agency manages the various risks associated with its extensive Information Technology systems. These systems include the Agency's Vehicles Software System, which holds the details of registered vehicle keepers and which the Agency uses to assess the correct rate of VED payable in respect of each vehicle.
5. The results of the detailed testing that my staff have carried out for the 2002-03 financial year provide assurance that the controls were operated effectively by the Agency for the transactions sampled. I am satisfied that the transaction controls in computer systems and supporting processes, together with the more general overall Agency controls that are in place (such as reconciliation procedures and batch totalling) are, taken together, sufficiently sound to ensure effective internal control over the assessment, collection and allocation of duty by the Agency.
6. As a result of the audit work that my staff have undertaken, I am able to give an unqualified audit opinion on the transactions and balances reported in the 2002-03 Trust Statement. My certificate on the 2002-03 Trust Statement is set out on pages [xx] to [yy].

Scope of my Report

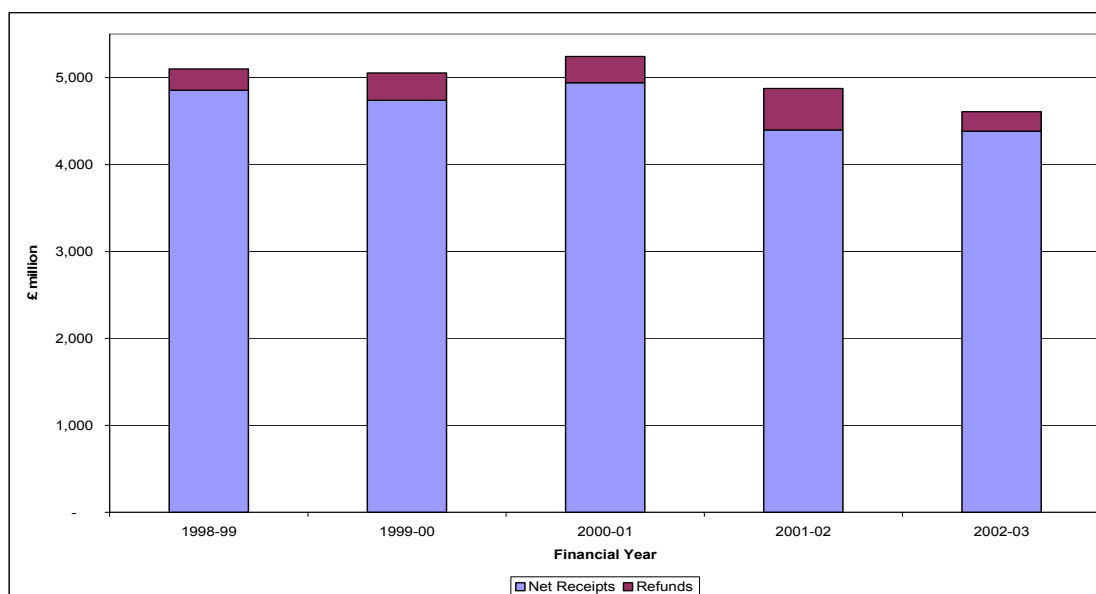
7. In this report, and without qualifying my opinion, I:
 - summarise the financial performance of the Agency and comment on the trends and results for the year in the collection of VED (Part 2);
 - provide an update on the Agency's progress in completing the introduction of the various Graduated VED schemes; the Agricultural and Concessionary Measures and the Heavy Goods Vehicle (HGV) Reform measures (Part 3);

- comment on the estimated levels of VED evasion, and the Agency's activities to tackle this problem (part 4); and
- comment on the Agency's role in the congestion charging scheme that was recently introduced in Central London (part 5).

Part 2: Financial Performance of the Agency in the collection of Vehicle Excise Duty

8. Gross revenues from VED for the United Kingdom totalled £4,612 million in 2002-03, a decrease of some 5.6 per cent from the previous year (£4,884 million). In 2002-03, VED was paid on 30.9 million vehicles (2001-02: 30.1 million vehicles), at a crude average of £149 per vehicle (2001-02: £162 per vehicle). The Agency told me that this fall in gross revenues mostly resulted from the full implementation of the Graduated VED scheme, under which an increasing number of vehicle keepers are entitled to pay VED at lower rates.
9. Despite the decrease in gross revenue collected, there was only a marginal decrease in the net revenue brought to account (£4,387 million in 2002-03 compared to £4,389 million in 2001-02). This was due to the lower level of refunds this year of £225 million, compared to £495 million in 2001-02. (The level of prior year refunds was inflated by an extension of the Graduated VED scheme in that year). I comment further on refunds paid under the Graduated VED scheme, the HGV rebate scheme and also following the abolition of VED on agricultural vehicles in paragraphs 21 to 27 of this report.
10. **Figure 1** shows the levels of gross VED collected across the United Kingdom over the last five years.

Figure 1: Vehicle Excise Duty collected by the Driver and Vehicle Licensing Agency, 1998-99 to 2002-2003



Source: DVLA Trust Statement

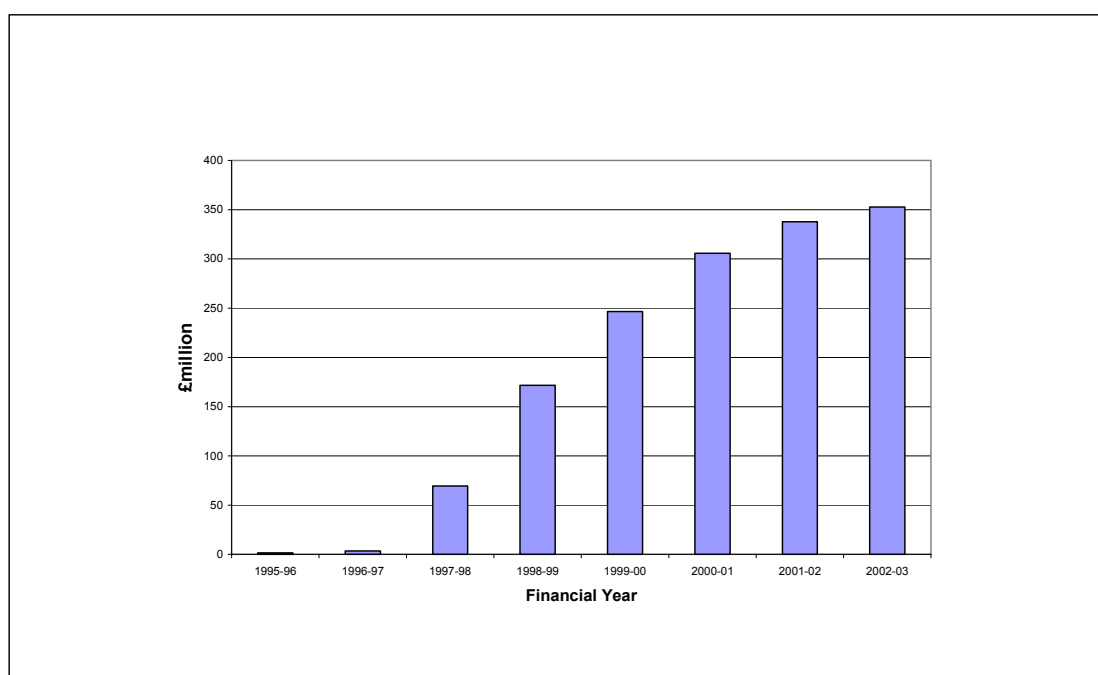
Trends in Vehicle Excise Duty collection

11. Almost 83 per cent of the gross VED received by the Agency in 2002-03 was collected under the Agency's agreement with Post Office Limited. The remaining VED was collected via the Agency's network of forty Local Offices across Great Britain, the Automated First Registration and Licensing scheme (AFRL), electronic data interchange and telephone re-licensing.
12. The Department's statutory responsibilities for the collection of VED in Northern Ireland are undertaken on its behalf by Driver and Vehicle Licensing Northern Ireland (DVLNI), an executive agency of the Department of the Environment Northern Ireland. Figures shown in the Agency's Trust Statement cover both Great Britain and Northern Ireland.
13. In my previous annual reports on these accounts, I have noted the rapid expansion of the Agency's schemes for the collection of VED by **electronic means**. These methods include the Automated First Registration and Licensing scheme, which enables motor dealers to

register and tax new vehicles at the same time electronically, and the system used by large fleet operators who are able to re-license their vehicles by electronic data interchange. I have also commented on the launch of the Agency's **telephone relicensing** pilot scheme, in partnership with an insurance company and a motor manufacturer.

14. The amount of VED collected by electronic means and through telephone re-licensing has increased this year to over £350 million or 7.7% of the gross VED collected in 2002-03 (compared to £340 million and 7% in 2001-02). **Figure 2** shows the levels of VED collected by electronic means and telephone re-licensing during the period 1995-96 to 2002-03.

Figure 2: Vehicle Excise Duty collected by electronic means and telephone re-licensing, 1995-96 to 2002-2003



Source: National Audit Office analysis

15. The rate of increase in the levels of VED collected by electronic means and telephone relicensing has slowed markedly in recent years as the original target audience has now largely been covered. **Figure 3** shows the rate of increase in the level of VED collected using these methods between 1998-99 and 2002-03.

Figure 3 – Annual percentage increases / (decreases) in Vehicle Excise Duty collected electronically from the Fleet and AFRL systems, and from telephone relicensing

Financial Year	AFRL	Fleets	Telephone Relicensing
1998-1999	225%	55.5%	N/A
1999 - 2000	51.5%	22.4%	N/A
2000-2001	26.7%	15.3%	104.3% ⁽¹⁾
2001-2002	12%	5.5%	3.5%
2002-2003	5.6%	0.5%	(1.6%)

(1) Pilot introduced in 1999-2000

Source - National Audit Office analysis

16. The Agency told me that it had expected the amount of VED collected from ***fleet operators*** to start to level off during 2002-03, as most operators interested in using the scheme had already registered. The amount of income collected using this method would only increase significantly if there were new entrants to the sector.
17. The Agency also told me that the 5.6 per cent increase in the level of VED collected this year by AFRL has been achieved by manufacturers rolling the scheme out to more of their dealers and by more manufacturers becoming involved.
18. Following a very successful introduction to the telephone relicensing pilot scheme, subsequent take-up of this facility has been minimal, and actually fell by 1.6 per cent in 2002-03. The Agency told me that this was because the scheme was still only available to individuals insuring with one particular insurance company and purchasing cars that were under three years old from one particular manufacturer. The new Electronic Vehicle Relicensing initiative, due to be piloted in early 2004, will extend

this facility to all manufacturers and insurance companies, although still restricted to cars under 3 years old in the first instance.

Conclusions on the Agency's financial performance in the collection of Vehicle Excise Duty

19. Gross revenues from VED continue to decline, despite continuing annual rises in the United Kingdom vehicle population, as the lower rates of duty payable by keepers of vehicles with smaller and / or cleaner engines have now been implemented in full under the Graduated VED scheme. The move in recent Budgets away from historic flat rates of duty to a matrix of differing rates has posed challenges for the Agency's information systems and collection mechanisms, as well as the need to ensure that the Agency is able to explain these changes in duty rates clearly to the general public.
20. The Agency has made considerable progress in diversifying the methods whereby VED may be paid by vehicle keepers, and I **recommend** that it should continue to examine carefully the potential for further extending the availability of electronic payment mechanisms, including through the internet, to the public. The initial results of the telephone relicensing pilot scheme would appear to confirm the Agency's preliminary assessment that there is considerable latent public demand for methods of payment other than over the post office counter.

Part 3: Progress on implementation of the Graduated VED Schemes, Abolition of VED on Agricultural and Concessionary Vehicles and HGV Reform Measures

21. In this part of my report, I comment on the phased introduction and further extensions of the Graduated VED schemes, the abolition of VED on Agricultural and Concessionary vehicles, and the reform of VED on Heavy Goods Vehicles.

Graduated VED Schemes

22. The Graduated VED scheme, which was first introduced in June 1999, introduced a qualifying engine size threshold of 1100cc, below which vehicles were subject to a reduced level of VED. Since then there have been two increases to the small engine threshold (to 1200cc and 1549cc respectively). Together with the introduction of Phase 2 of the Graduated VED initiative, these measures foreshadowed the creation of an entirely new charging regime, based on vehicle pollutant emissions, for all new cars registered from 1 March 2001.
23. Following the announcement of each of the small engine increases, the Agency has issued rebate applications to the holders of licences for the vehicles affected. This involved the payment of rebates totalling £179 million by the Agency up to 31 March 2002. During 2002-03 the Agency has made further payments totalling £0.6 million. However, as **Figure 4** illustrates, there are still a significant number of potential rebate payments still outstanding at 31 March 2003.

Figure 4 Number and Value of applications outstanding on the Graduated VED scheme at 31 March 2003 (31 March 2002)

	1200cc		1549cc	
	March 2003	March 2002	March 2003	March 2002
Number of rebate applications not returned by vehicle keepers	375,300	421,500	584,800	619,500
Value of rebates not claimed by vehicle keepers	£13.9m (est)	£15.6m	£22.9m (est)	£24.3m

Source: Driver and Vehicle Licensing Agency and DVLNI

Agricultural & Concessionary Measures

24. In his March 2001 Budget the Chancellor announced, with immediate effect the abolition of VED on tractors and other concessionary vehicles. This initiative affected around 255,000 vehicles in the United Kingdom and necessitated the payment of rebates to vehicle keepers by the Agency. The rebates were generally of low value, averaging about £20 each.
25. At 31 March 2003, the Agency estimate that around 2,000 payable orders issued in respect of the Agricultural and Concessionary Vehicles scheme remain uncashed. The total value of these payable orders is some £0.031million (£0.387 million at 31 March 2002.).

Reform of VED on Lorries

26. In his November 2000 pre-Budget statement, the Chancellor announced the Government's intention to reform Heavy Goods Vehicle (HGV) excise duty during 2001 by introducing new rates and by restructuring the system of bands to improve environmental incentives and simplify the system. As part of these reforms, and in order to allow adequate consultation time for the reform of VED on HGVs, the Chancellor announced a range of interim measures, including the introduction of

interim rates of HGV Excise duty and a rebate scheme for most heavy goods vehicles. The Agency received additional government funding in respect of the interim rates and rebate scheme.

27. During the period December 2000 to March 2003, the Agency made almost 124,000 rebate payments totalling almost £235 million to HGV keepers who met the criteria of the HGV rebate scheme. **Figure 5 below** shows the total cost of the HGV Reform scheme to 31 March 2003.

Figure 5 - HGV Reform Measures – Scheme Totals

	2000-01 £'000	2001-02 £'000	2002-03 £'000	Total £'000
Rebate payments	226,746	7,983	38	234,767
Transitional arrangements	64,631	218,552	0	282,883
HGV Scheme Total	291,107	226,505	38	517,650

Source: Driver and Vehicle Licensing Agency

Closure of the rebate schemes

28. As no formal closure date has been written in to the enabling legislation for the various rebate schemes, the Agency has no statutory basis on which to bring the schemes to a close. The Agency told me that it will continue to make rebate payments on receipt of valid applications but that it is unable to establish with any degree of certainty the level of future rebates on the Graduated VED and HGV schemes.

Conclusions on the implementation of Graduated VED and the rebate schemes

29. The Agency has done well to implement the Graduated VED scheme against a demanding timetable. The resultant rebate schemes for keepers of smaller engine vehicles, agricultural and concessionary

vehicles and, in particular, for heavy goods vehicles, have placed significant workload pressures on the Agency as each transaction has had to be manually processed.

30. Despite the substantial volume of rebate transactions handled by the Agency since 1999, significant numbers of keepers remain entitled to apply for refunds of duty and the Agency has undertaken to make such payments on receipt of valid applications. Given the time that has elapsed since the introduction of the various rebate schemes, it is unlikely that the database record for the vehicles concerned is now sufficiently up-to-date to enable valid applications to be identified. However, I **recommend** that the Agency should consider, in conjunction with the Department and the Treasury, what more should be done to ensure that all keepers receive their legal entitlement to a refund as quickly as possible.

Part 4: Vehicle Excise Duty Evasion

31. VED evasion continues to present a serious problem for the Agency. In this section of my report, I

- examine the incidence of VED evasion;
- estimate the amount of revenue lost through evasion and the amounts recovered through enforcement activities; and
- summarise the measures used by the Agency to combat evasion.

Incidence of VED evasion

32. The Agency uses periodic roadside surveys to estimate the level of VED lost as a result of evasion. Contractors employed by the Department record the registration marks of vehicles using public roads at 256 sites throughout the UK during a given period. The Department's statisticians then compare the registration marks recorded in the survey to the details held on the vehicle databases of the Agency and DVLNI, in order to estimate the number of unlicensed vehicles in each area. In order to ensure a statistically valid estimate of the national evasion rate, the data analysis is weighted for traffic volumes in different areas, and adjusted to compensate, for example, for the likelihood of repeat sightings of individual vehicles.

33. The most recent roadside survey was undertaken in June 2002, and the contractors presented their draft report to the Department in November 2002. The results set out in that draft report suggested a very high level of evasion, which the Department queried with the Agency. Subsequent investigation of the data by Agency staff revealed that the contractor's estimates of evasion levels were over-stated due to errors in the data extraction processes from the Agency's database. The data extraction had failed to take account of the relicensing of a number of vehicles for which there had previously been a Statutory Off Road Notification made to the Agency. These errors resulted in Agency staff having to manually

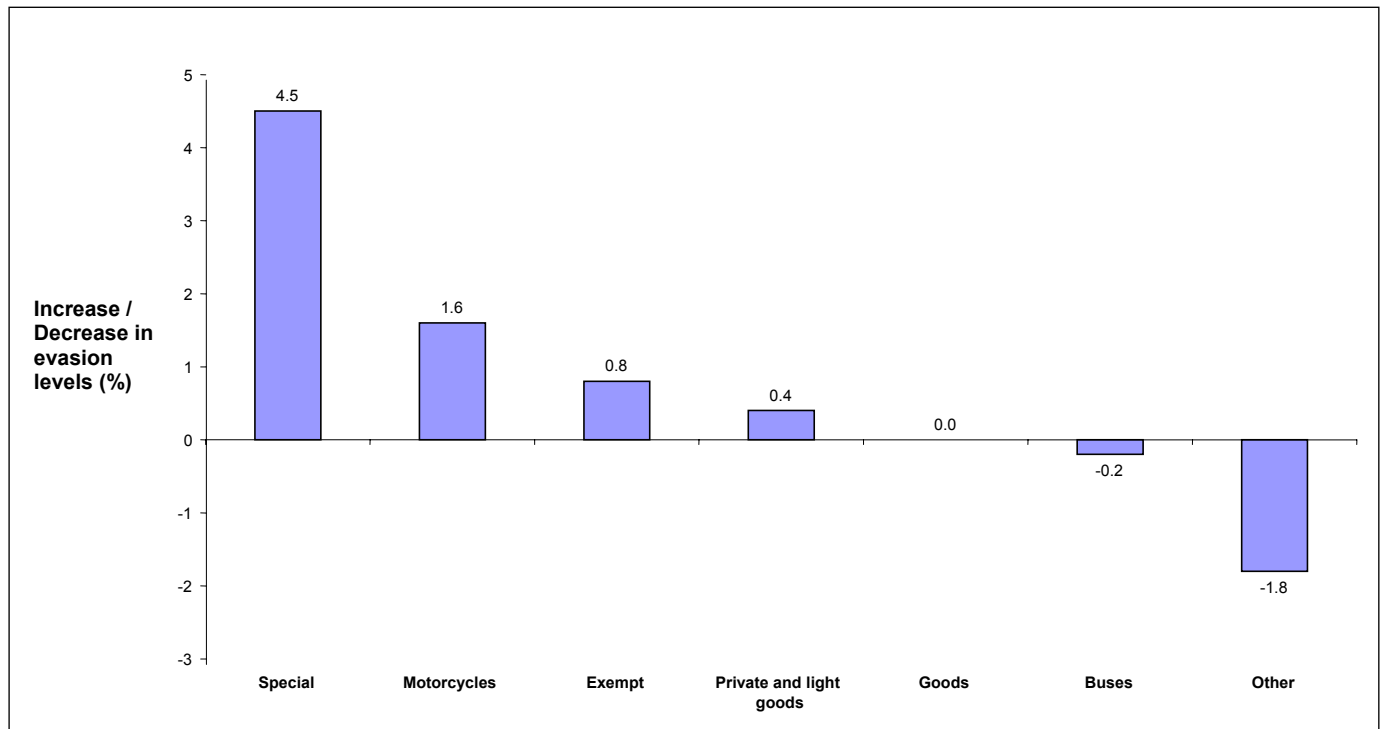
check each of the 800,000 vehicle records used in the survey, and delays in the production of the final report, which was only made available to the Department and the Agency in March 2003.

34. The final results of the 2002 roadside survey estimated an overall evasion level of 4.5 per cent of the total revenue that should be raised – a 0.6 per cent increase from the level of evasion estimated in the 1999 Survey and a 0.4 per cent increase from the 1994 survey. The resultant losses of revenue are quantified in paragraphs 35 to 39 of my report.

Variations in evasion rates

35. The survey highlighted a wide variation of evasion rates across the various vehicle tax classes. Private Light Goods (PLG) Vehicles, which account for almost 90 per cent of all vehicles on the road, were shown to have an estimated evasion rate in traffic of 2.7 per cent, an increase of 0.4 per cent from 1999. Motorcycles were estimated to have the highest evasion rate (22.9 per cent), with public transport vehicles the lowest at 0.5 per cent. **Figure 6** shows the movement in estimated evasion levels in all taxation classes between the 1999 and 2003 surveys.

Figure 6 - Movements in estimated VED evasion levels by tax class between 1999 and 2002

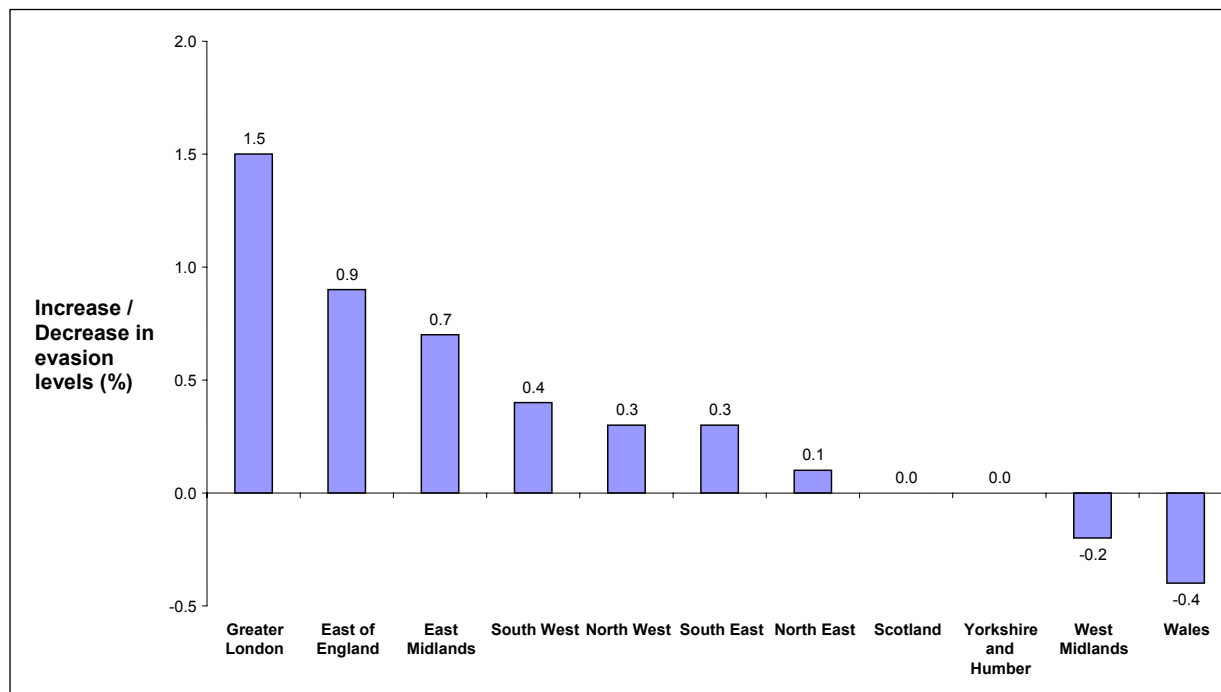


Note: The above figures exclude Northern Ireland

Source: Vehicle Excise Duty Evasion 2002 Department for Transport Statistics Bulletin, March 2003

36. The Private Light Goods vehicle sample was large enough to permit further statistical analysis on a geographical basis. This analysis showed that although evasion levels had reduced in Wales and the West Midlands since 1999, the largest increases in evasion had occurred in the East of England and Greater London areas.
37. **Figure 7** shows the movements in estimated evasion levels for Private Light Goods Vehicles between the 1999 and 2002 surveys on a geographical basis across Great Britain.

Figure 7 - Movements in estimated VED evasion levels in the private and light goods tax class by region across Great Britain between 1999 and 2002



NB: Regional variations may not necessarily reflect ownership, as a vehicle recorded in one area may have travelled from another region.

Source: Vehicle Excise Duty Evasion 2002 Department for Transport Statistics Bulletin, March 2003

Estimated Gross Loss of Revenue

38. Based on the results of the roadside survey, the Department's statisticians estimate the total gross loss of revenue due to VED evasion in Great Britain to have been £193 million for 2002-03. This compares to an estimated gross loss (based on the 1999 roadside survey data) of £191 million in 2001-02.
39. The measure of evasion for each vehicle category is used by the statisticians, in conjunction with average licence values for each tax class, to estimate the gross loss of revenue in each tax class. **Figure 8** shows the estimated gross revenue lost per tax class within Great Britain.

Figure 8 - Estimated gross revenue lost per tax class in 2002-03

	Evading stock	Average licence value	Revenue loss 2002-03
	000s	£	£ million
Private and light goods	1192	142	168.9
Goods	9	538	4.9
Motorcycles	329	38	12.5
Buses	3	294	1.0
Exempt	53	0	0.0
Special	150	26	3.8
Other	20	113	2.3
All classes	1757	-	193.4

Source: Vehicle Excise Duty Evasion 2002 Department for Transport Statistics Bulletin, March 2003

Estimated Net Loss of Revenue

40. The Agency operates a wide range of measures to tackle VED evasion, and these result in the recovery of VED due to the public purse both directly (through fines and penalties) and indirectly (through the deterrent effect of high-profile enforcement activities which persuade vehicle keepers to rel licence voluntarily). The Agency is able to quantify the estimated financial impact of these measures, and thus offsets this against the gross revenue losses to produce a net figure.
41. The Agency has estimated that the net revenue lost within Great Britain during 2002–03 amounted to around £83 million (£81 million in 2001-02). This comprises the gross evasion loss of £193 million, offset by some £69 million raised for the Exchequer through enforcement activities (such as prosecutions and out of court settlements) and some £41 million revenue generated from 'induced' relicensing (that is, the deterrent effect of measures such as publicity campaigns and prosecutions). For Northern Ireland, the estimated net loss of revenue in 2002-03 is £13 million, compared with £11.5 million in the previous year.

Measures to tackle VED evasion

42. The Agency addresses the problem of VED evasion through a number of enforcement activities. These include wheelclamping, the use of Automatic Number Plate Reading equipment, and the follow up of offence reports from police and traffic wardens. The Agency estimates that the

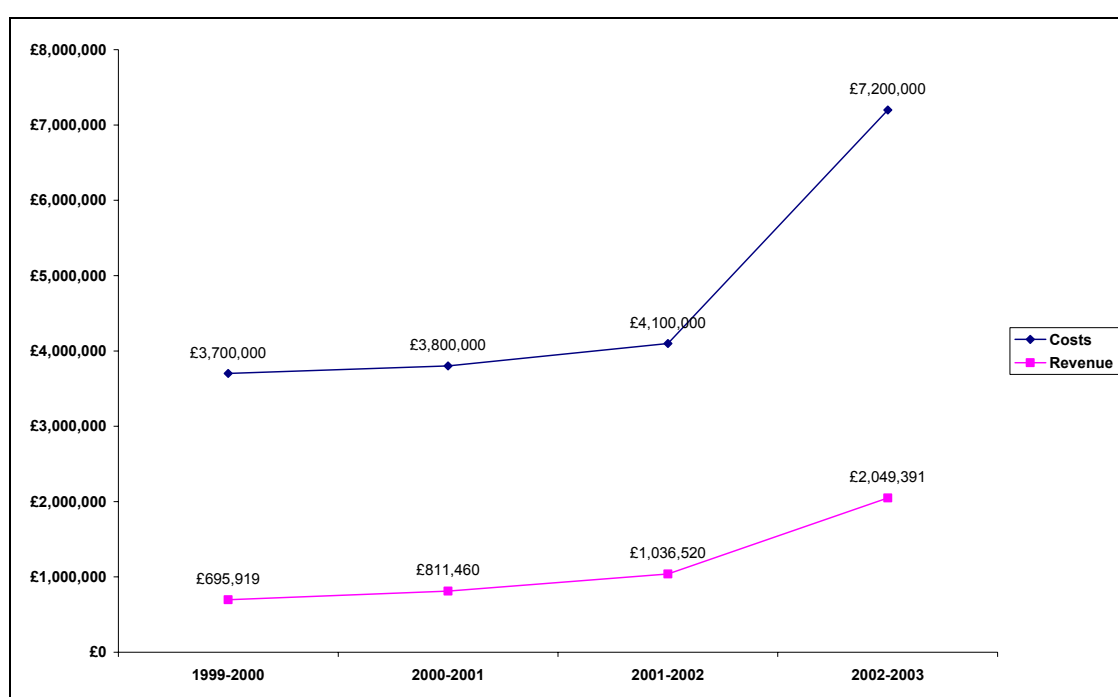
publicity accompanying various campaigns and other deterrent measures over the last six years has persuaded over 650,000 would-be evaders to voluntarily relicense their vehicles, realising some £170 million in revenue.

Wheelclamping Operations

43. Wheelclamping is designed to encourage evaders to re-enter and remain within the vehicle licensing system. The scheme also aims to deter potential VED evaders with the threat of substantial charges, inconvenience and prosecution for VED offences. In addition, the Agency told me that they consider that wheelclamping has a positive effect on road and vehicle safety since relicensing involves a check on MOT and insurance certificates. It also improves the accuracy of the Agency's vehicle database by encouraging previously unregistered vehicle keepers to relicense.
44. The effectiveness of the wheelclamping scheme is monitored by statisticians on a monthly basis, who estimate the level of induced relicensing by comparing the level of relicensing in the geographical areas covered by a wheelclamping campaign against the remainder of the country.
45. The Agency told me that during 2002-03 a total of 40,000 vehicles were clamped, resulting in income of £2.05 million from release fees, storage charges and surety payments and from the proceeds of auctions and scrapped vehicles. This compares to 25,000 vehicles clamped during 2001-02 and income of £1.04 million.
46. The Agency told me that since the introduction of wheelclamping in 1997 over 108,000 vehicles have been clamped, realising some £4 million in fees and penalties. Around 68,000 of these vehicles have been crushed.
47. **Figure 9** shows the cost of administering the wheelclamping scheme and the revenue generated by the scheme since 1997. The large increase in administration costs in 2002-03 arose because of the need to negotiate a

new contract with the wheelclamping contractors, the previous contract having expired in 2001-02. (The new contract, effective from November 2002, incorporates provisions for additional clamping activity. It also has an annual 'renegotiation of fees' clause, whereas under the previous five-year contract the Agency was charged a static fee.) Approximately two-thirds of the Agency's spending on wheelclamping is on contractor costs.

Figure 9 - Administration Costs and Direct Revenues generated by Wheelclamping operations: 1999-2000 to 2002-03



Source: DVLA

48. The costs of the wheelclamping scheme in 2002-03 exceeded the revenues directly generated by a ratio of almost 3.5 to 1. However, the Agency told me that it nonetheless considers the scheme to be good value for money, as it forms part of the overall enforcement effort.
49. In 2002, as part of a review of the UK vehicle licensing system carried out by the Jill Dando Institute of Crime Science, the Agency was asked to plan for a significant increase in wheelclamping activity. This was to address concerns about rising numbers of abandoned vehicles and, in

particular, the effect that the introduction of the EU End-of-Life Directive¹ may have on the numbers of cars being abandoned, with cost implications for local authorities.

50. In response to these concerns, the Agency told me that it is planning a significant increase in wheelclamping operations, with a target of clamping 100,000 unlicensed vehicles per year across Great Britain. The number of national wheelclamping teams will increase from 12 to 35, and in London the operations will triple in size. The expansion will also involve the creation of additional vehicle pounds at 13 locations across Great Britain. The Agency told me that it is currently considering how best to fund this proposed activity.

The Automatic Number Plate Reader (ANPR) Project

51. The ANPR project is a computerised system that collects images of moving vehicles from roadside video cameras. Computer software digitises the images, searches for the number plates and reads the registration mark. The scanned mark is then compared with a listing of unlicensed vehicle registration mark details, extracted from the Agency's vehicle database. If a match is found, the image and event details are stored on disc as evidence of the offence. The images of vehicle registration marks that are not matched to the unlicensed vehicle data bank are discarded.
52. In the six months from the scheme's national launch in October 2001 to 31 March 2002, the ANPR project resulted in 440 out of court settlements and 94 successful prosecutions. For the full year 2002-03, its operation has resulted in 1,600 out of court settlements and 1,200 successful prosecutions. Since its launch in October 2001, the ANPR scheme has cost a total of £2 million and generated revenue of over £3 million.

¹ The EU End-of-Life Vehicle Directive (ELVD) - Directive 2000/53/EC increases the cost to the keeper of scrapping a vehicle, as it now has to be disposed of in an environmentally friendly way.

53. There are currently eleven ANPR vans covering Great Britain and Northern Ireland. During 2003-04 the Agency plans to increase the number of vehicles to 15.

Other anti-evasion measures used by the Agency

54. In addition to wheelclamping and ANPR technology the Agency uses a number of other measures to tackle VED evasion. In the following paragraphs I outline a number of new initiatives and the way in which the Agency collaborates with other public sector enforcement organisations.

Publicity Campaigns

55. During 2002-03 the Agency spent £2.9 million on advertising 30 publicity campaigns throughout the country. The Agency told me that, as a result of these campaigns, statisticians estimated that some 176,000 motorists were induced voluntarily to relicense their vehicles, generating £26 million in additional revenue.

Car Park Schemes

56. Some 189 Local Authorities are working with the Agency to tackle VED evasion by targeting unlicensed vehicles in Council car parks. Attendants identify unlicensed vehicles, attach warning notices to the windscreens of such vehicles, and send a copy of the notice to the Agency.
57. The Agency told me that between October 2000 and June 2003, local authorities had provided notification of around 44,000 vehicles under this scheme. As a result around 25 per cent of these motorists had voluntarily relicensed their vehicles.

Telephone Hotline

58. In February 2001, the Agency undertook a pilot exercise in Hertfordshire to provide a free of charge telephone 'Hotline' to members of the public who wished to report apparently unlicensed vehicles. The availability of this facility was advertised through local campaigns.

59. The Agency told me that the pilot scheme was self-financing and popular with the public. The Government accordingly decided to make the initiative available to all, and it went live in London in May 2003. The telephone hotline will be fully nationwide by late 2004.

Registration of Number Plate Suppliers

60. Since January 2003, all suppliers of number plates in England and Wales have been required to register their details with the Agency. The legislative requirement is the result of a recommendation of the Vehicle Crime Reduction team established by the Home Office in September 1998 to develop and implement a strategy to meet the Government's target to reduce vehicle crime by 30 per cent by 2004.
61. The aim of the Registration scheme is to make it more difficult for criminals and fraudsters to falsify the identity of vehicles either to avoid detection or to dispose of stolen vehicles. Registration, which costs a one-off fee of £40, is payable by each plating business for each of its individual outlets. All registered suppliers and manufacturers are required to maintain records of sales, available for inspection by Local Authority officers and the Police for at least three years. In issuing registration marks, suppliers must also satisfy themselves that the person applying for a number plate has the entitlement to display it and retain documentary evidence to support this. Suppliers of number-plate components and materials are only allowed to trade with registered suppliers.
62. Since 1 March 2003, the Police and Local Authorities have had the power to prosecute those who do not comply with the registration process. The Agency told me that they have been accepting registrations from suppliers since October 2002, three months before the date required by legislation. At 31 March 2003, they had registered approximately 30,000 outlets and collected £1.2 million in registration fees. The Agency intends to use part of this additional income to increase local enforcement effort

and will initially fund the cost of three officers to support Local Authorities in ensuring compliance.

Collaboration with Other Public Sector Enforcement Partners

63. The Agency has a long history of working with Police Forces. Police and Traffic Wardens have been reporting unlicensed vehicles to the Agency as part of their day to day activities for over a decade, and these reports continue to generate the majority of enforcement casework undertaken by the Agency's enforcement teams located in its forty Local Offices.
64. During 2002-03, the Agency's Local Office Network received more than 1 million reports from Police Forces and Traffic Wardens throughout the country, resulting in the identification of 820,000 VED offences.
65. Recent technological developments have increased the scope for the Agency to work closely with Police Forces in combating VED evasion. For example:
 - The Agency provides national and regional details of unlicensed vehicles to forty-four Police forces that employ ANPR systems. It also provides a database of vehicles for which no current keeper details are recorded on the Agency's records.
 - In partnership with Sussex Police, the Agency is undertaking a pilot scheme whereby police speed cameras will electronically identify unlicensed vehicles and transmit the vehicle details directly to the Agency's Local Office network that is responsible for VED enforcement activities.
 - **'Project Laser'** - under this police-led initiative, Police forces will use their ANPR cameras to identify unlicensed vehicles. Once identified, the vehicle will be stopped by a police intercept team and the driver interviewed. The driver of the vehicle will be invited to pay a fixed penalty for failing to display a valid tax disc, and a report will be passed to the Agency within 24 hours. Checks will also be made on each vehicle for a valid MOT certificate and insurance cover. The Police will be able to recover a part of the fixed penalty to cover their

costs, and a six month trial involving 23 Police forces began in June 2003.

66. In addition to collaboration with Police Forces and Traffic Wardens, the Agency works closely with many Local Authorities to tackle VED evasion. In the following paragraphs I provide examples of some recent joint initiatives.

'Operation Cubit'

67. This initiative was originally devised with the County and Borough Councils of Kent; the Kent Fire Brigade and Police force, to target abandoned and unlicensed vehicles. The Agency's role in 'Operation Cubit' is to wheelclamp, remove and dispose of any targeted vehicles. By sharing resources, each party's legislation powers are used to achieve mutual objectives. For instance, the Fire Service is concerned that abandoned vehicles represent potential fire risks.
68. To date, 'Cubit'-style operations have been undertaken in Hastings, Brighton, Cleveland, Liverpool, Basildon, Stoke-on-Trent, Bexley and Havering. Further operations are planned for 2003-04.

Devolved Agency Powers

69. Between April 2001 and March 2002, Newham Borough Council undertook a pilot scheme using 'devolved' Agency powers to wheelclamp and impound unlicensed cars as agents of the Secretary of State. During the twelve month trial the authority wheelclamped over 2,000 vehicles. Around half of these vehicles were released following payment of the relevant release fees. Most of the remaining vehicles were disposed of - mainly by crushing.
70. The Agency told us that, as a result of the trial, Newham Borough Council reported a reduction in the reported local VED evasion rate from 20 per cent to 5 per cent. It also saw the number of abandoned vehicles in the

borough fall by around 10 per cent, during a period where numbers of abandoned vehicles in other London boroughs were generally increasing.

71. During 2002-03 a further six Local Authorities took on devolved powers, and seven more are due to do so by June 2003. Sixteen other Local Authorities are currently in discussion with the Agency about the scheme.

Future Anti-Evasion Measures

72. In addition to the initiatives already mentioned the Agency is working closely with the Department and other agencies on further measures to tackle evasion.

Continuous Registration

73. New procedures for tackling vehicle excise duty evasion, based on legislation contained in the 2002 Finance Act, are planned to come into force in January 2004. This will allow the Agency for the first time to undertake enforcement action direct from the licensing record, rather than having to spot an unlicensed vehicle on the road as at present. The legislation will place the onus on the registered keeper of the vehicle to maintain an unbroken licensing record, unless the vehicle is notified as being off the road under the Statutory Off Road Notification (SORN) procedure or properly notified as sold, scrapped, stolen or exported.

Identity Checking/Keeper Query

74. As part of its continuous registration initiative, the Agency has recently increased substantially the cross-checking which is carried out when registration documents are returned, and will also be contacting a sample of new keepers to confirm that they have indeed acquired the vehicle.

Annual Surveys

75. From 2004, the roadside surveys conducted by the Department's statisticians will be carried out annually, rather than every 3 years as at

present. The statisticians will also be able to provide the Agency with quarterly trend estimates of evasion and revenue losses.

Accuracy of the Agency's Vehicle Database

76. In addition to its integral role in assisting the Agency to tackle VED evasion, an accurate and up-to-date register of vehicles and keepers is a vital tool for use by Police and other enforcement agencies. The increasing use of camera technology is placing a premium on the accuracy of the Agency's records, and its programme of initiatives to tighten the registration system are also intended to improve the accuracy of the vehicle database. I have commented on Continuous Registration and Identity Checking in paragraphs 73 and 74 of this report, and two further measures being introduced by the Agency are:

- **Mandatory V5s** – Introduced in February 2003, this prevents the issue of a VED license without the appropriate verification of vehicle keeper details.
- **Harmonised Registration Certificates (V5s)** – Due to commence in January 2004, the new-style certificates will conform to EU Directive 1999/37/EC. This initiative involves the re-issue of vehicle registration certificates, but only to those keepers for whom the Agency is satisfied that it has the correct details.

Conclusions on Vehicle Excise Duty evasion

77. The Agency has in place a range of specific measures to tackle the incidence of VED evasion. Gross losses of around £200 million annually are offset by some £110 million collected through fines and penalties and the deterrent effect of various high-profile enforcement campaigns.

78. There remains considerable scope for anti-evasion measures to be extended and deployed in a coherent manner, in particular through the more widespread use of automatic number plate readers and increased collaboration with local authorities and Police forces. I **recommend** that the Agency should benchmark the comparative effectiveness of its

various anti-evasion measures and focus its resources on those which generate either the highest financial rates of return or offer significant non-financial benefits, such as improving the accuracy of the vehicle database.

Part 5: Introduction of Congestion Charging

79. This section of my report:

- sets out the background to the London Congestion Charging scheme;
- explains DVLA's role in this initiative;
- comments on the agreement reached between the DVLA and Transport for London to fund the cost of setting up and running an IT system that meets the requirements of Transport for London; and
- outlines the challenges that DVLA may face should Congestion Charging be expanded to other areas of the UK.

Background

80. In February 2002, the Mayor of London announced his decision to introduce a Congestion Charging scheme in central London. The scheme is operated by Transport for London and commenced on 17 February 2003. The main aim of congestion charging is to reduce traffic congestion. It is also designed to reduce through traffic volumes, shorten journey times and encourage the use of public transport and other alternatives to private car journeys.
81. The London congestion charging scheme is based on a network of 203 camera zones located on the boundary of and within the charging area. The congestion-charging zone is defined by the area inside the Inner Ring Road, which covers just over eight square miles. Drivers are charged £5 a day for entering or being parked in the zone between 07.00 and 18.30 Monday to Friday (excluding public holidays). The cameras electronically read the number plates of vehicles which enter or are parked in the zone. These number plates are then matched against a database to identify if a payment has been made or if the vehicle is exempt. Exemptions or reductions in the charge apply to the vehicles of those residing within the charging zone, disabled-badge holders,

registered taxis/minicabs, buses and some alternative fuel vehicles. All motorcycles and mopeds are exempt.

82. Drivers are required to pay the £5 charge on the day the vehicle enters the charging zone, or up to 90 days beforehand. Alternatively the driver can make payment between 10 pm and midnight on the day of travel, although this attracts a surcharge bringing the total amount payable to £10. Failure to pay in advance, or on the day of travel results in penalty charges, which must be paid within 28 days, after which the vehicle may be towed away or clamped.

The Agency's role in the London Congestion Charging Scheme

83. The Agency has a statutory responsibility under the Transport Act 2000 to supply information relevant to vehicles and keepers in supporting congestion charging schemes. It provides Transport for London with:
- Details of vehicles identified in the central charging zone when charges for entering have not been paid, and
 - Details of vehicles that are exempt from the charge, or entitled to pay a reduced charge, for example, buses, taxis and the vehicles of disabled keepers.
84. The Information Commissioner has confirmed that the provision of information to Transport for London by the Agency in support of the Congestion Charging scheme accords with the provisions of the Data Protection Act 1998.
85. In view of the potential volume of enquiries that Transport for London was expected to make on the Agency's records, the Agency developed a new system based on its 'Web-Vault Mechanism' which enables the efficient exchange of information and commercial transactions to be undertaken in an entirely electronic environment. Although this new system does not give Transport for London unrestricted access to the Agency's vehicles database, it does enable them to access information from the Agency's 'Web Vault', which is refreshed with relevant data overnight.

Cost Sharing Agreements

86. Transport for London was willing to pay for the development of the new system provided it was granted exclusive use. However the Agency recognised the considerable future potential for use of this technology by other key stakeholders such as the Police and insurance companies. As a result the Agency agreed to fund the hardware and base software development costs – thereby securing ownership and future use entitlement – whilst Transport for London funded the additional development work needed to tailor the system to its own specific requirements. In addition, Transport for London has agreed to contribute to the ongoing ‘running costs’ of the system. The Agency acknowledges that it also benefits from the system, for example through improved accuracy of its record of vehicle keepers.
87. Transport for London has made financial contributions towards both the development of the system and the Agency's on-going running costs. The basis of the cost sharing is to be reviewed later in 2003, by when a more reliable basis of cost apportionment will be available.
88. Local Authorities in other areas of the country, such as Edinburgh and Bristol, have also expressed an interest in introducing congestion charging schemes. However any expansion of the London scheme to other areas of Great Britain would pose three significant issues for the Agency:
- i. An increasing number of Local Authorities are looking at the potential for the use of advanced technology such as microwave scanning of vehicles and satellite based observations. The Agency could potentially be required to provide keeper details and verification of vehicle registration marks for millions of vehicles on an instant access, daily basis.
 - ii. Without standardisation of systems and/ or data interfaces, a plethora of different systems and data requirements could potentially involve very significant handling problems for the Agency.

- iii. The Agency has publicly declared its ability to provide information on an instant access basis to support local congestion charging schemes. Current legislation however does not allow the Agency to insist on recovery of any costs involved in meeting the information needs of congestion charging schemes. The Agency is aware that without urgent revision to the current legislation, it could have a liability to satisfy the information needs to support congestion charging without the means to cover the costs of meeting these statutory obligations.

Conclusions on the introduction of Congestion Charging

89. Whilst congestion charging has operated successfully for many years in some European cities and elsewhere, its introduction earlier this year within the central London area represents a significant innovation for vehicle flow management within the United Kingdom. The Agency has played a key role in the implementation and continuing operation of the scheme and has responded readily to the new technological challenges that the scheme has posed.
90. For the future, the prospect of increased numbers of local authorities following the lead of Transport for London in establishing individual congestion charging schemes for their towns and cities will potentially have significant workload and cost implications for the Agency. I **recommend** that the Department should consider, in conjunction with the Agency, how best to ensure that the Agency can provide an overall solution to maximise efficiency and motorist compliance, whilst at the same time being able to recover its relevant costs from local authorities to whom it provides information.

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