



National Audit Office

## **VEHICLE EXCISE DUTY 2006-07 ACCOUNTS**

# The Comptroller and Auditor General's Report

Presented to the House of Commons under Section 2 of the  
Exchequer and Audit Departments Act 1921 as amended by  
the Government Resources and Accounts Act 2000

This Report is published as part of the 2006-07 Accounts of  
the Driver and Vehicle Licensing Agency  
(HC 800 19 July 2007)

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Comptroller and Auditor General

## Background and Opinion

1. Section 2 of the Exchequer and Audit Departments Act 1921 requires me to examine on behalf of the House of Commons the correctness of the sums brought to account in the Vehicle Excise Duty (VED) Account operated by the Driver and Vehicle Licensing Agency (the Agency). My audit certificate contains my opinion that the accounts give a true and fair view. The Act also requires me to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of VED, and that they are duly carried out. I am required to report the results of my examination to the House of Commons. My audit certificate and this report together satisfy these requirements.
2. No tax or duty collection system can ensure that all those who have a liability comply with their obligations and there is a balance to be struck between resources used on enforcement work and the impact of that work.
3. In this report I draw attention to the outcome of the Department's 2006 roadside survey used to estimate levels of evasion. The conclusions drawn from the survey results show an increasing level of evasion with the estimated loss of duty of some 5 per cent (£217 million)<sup>1</sup>, an increase from 3.6 per cent in the prior year and significantly higher than the Agency's targets of 2.9 per cent by 31 January 2007 and 2.5 per cent by 31 December 2007. Evasion by motorcyclists is estimated at some 37 per cent. The effectiveness of the Agency's controls is being impaired by non-compliance. The Agency has taken actions during 2006-07 which it expects to reduce future evasion levels as detailed in my report
4. The VED Collection and Enforcement Governance Board, comprising representatives from the Agency, the Department for Transport and HM Treasury, monitors VED collection and enforcement under the Service Level Agreements between the Department and the Agency. The Board's responsibility is primarily for delivery and it is not accountable for VED policy, regulation or procedures. Collection and enforcement transaction volumes and costs are reported to the Board each quarter. Changes to the Service Level Agreements have to be agreed with the Treasury if the changes impact on the VED Collection Memorandum of Understanding between the Department and the Treasury.

## Summary of Main Findings and Conclusions

5. **VED related regulations and procedures remain adequate and proportionate for the vast majority of compliant payers.** Electronic vehicle licensing over the internet has made it easier for many people to renew their licences.
6. **The Agency's 2006 roadside survey estimated VED evasion at some 5.0 per cent (£217 million), a significant increase from 3.6 per cent (£147**

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<sup>1</sup> Source: "Transport Statistics Bulletin: Vehicle Excise Duty Evasion 2006" published by National Statistics and Department for Transport, January 2007

**million) the previous year.** The Agency has little prospect of achieving its evasion target of 2.5 per cent by December 2007, or the related Gershon efficiency target to generate an additional £70 million annual revenue through reduction in evasion by 31 March 2008. Over a third of motorcycles (37 per cent) are estimated by the survey to be unlicensed, an increase from 30 per cent in the previous year. The higher and increasing evasion rates threaten public confidence in the Agency's enforcement regime.

7. **The Agency is exploring an alternative performance measure of the increase in VED income resulting from reduction in evasion, which potentially offers a better measure of the Gershon income target.** The new method of measurement will be based on actual VED income collected, working mainly from the Agency's records, rather than continuing to be based mainly on the results of the annual roadside survey. The Roadside survey will continue to be used as one of the measures to assess evasion.
8. **The target of halving the vehicle underclass of evaders (unlicensed vehicles often associated with crime-related activities) is unlikely to be found to have been met by the January date, when the final review has been completed. No new Ministerial target has been set for 2007-08 as the Agency does not have sufficient scope to influence the vehicle underclass.** Discussions have started with the Home Office on how enforcement activity can be more effectively targeted at the vehicle underclass.
9. **My staff noted during their work that the VED systems allowed a small number of payers renewing their licences to avoid a month's duty without risk of penalty.** This situation occurred because, on expiry, the systems offer renewal for the period commencing on the first of the month in which the person applies, regardless of whether this coincides with the previous licence expiring.
10. **Over 60 per cent of unpaid Late Licensing Penalties were not pursued through the courts or through debt collection agents in 2006-07.** During 2006-07 the Agency trialled the use of debt collectors to pursue unpaid Late Licensing Penalties with encouraging initial success rates of 20 percent, broadly comparable with recovery rates for those pursued through the courts in 2006-07 and better than the court pursued recovery rates in the previous year. The Agency intends to place all unpursued cases through the debt collectors before the end of 2007. It also intends to include re-licensing actions as well as payment of penalties within the debt collection agents' remit. Hardened evaders who do not respond to debt collection actions will be targeted through wheel-clamping campaigns.
11. **There remain large numbers of hardened evaders who ignore the Agency's actions and who incur no further penalties after the first evasion episode, even if they continue to evade for subsequent licensing periods.**

## Recommendations

12. The Department should continue to generate estimates of on-road evasion. In reviewing the future of the roadside survey, the Department and the Agency should consider alternative sources of evasion estimates such as automatic number plate recognition systems, even if they are only partial and closely targeted. Estimates of evasion need to provide enough data to inform decisions about the options for action against VED evaders.
13. The Agency should evaluate the impact and effectiveness of advertising as a method of reducing evasion rates and modify its communication methods by using the most cost effective means of reminding drivers of their responsibilities. In particular the Agency should consider how motorcyclists can be better targeted.
14. Retaining a focus on tackling the vehicle underclass is important because of the association with crime and the Department and Agency should work with the Home Office to devise a suitable target and measures for reducing evasion in this group.
15. As agreed with my staff, the Agency should take to the VED Governance Board a cost-benefit analysis for modification of the vehicle registration system in 2007 to issue penalties to customers who miss paying a month's tax on late renewal, as well as targeting those who are two months or more late. The Agency should estimate the impact on revenue of licensing gaps to identify the extent of duty lost and to minimise future losses.
16. The Agency should continue to analyse regularly the proportions of Late Licensing Penalties pursued through the courts and via debt collection agents to confirm that these recovery methods remain the most effective overall, and to determine the deterrent impact and cost-effectiveness of any additional spending on recovery action.
17. The Agency should specifically consider and evaluate the financial and enforcement benefits of the possibility of further penalties and warnings for persistent evaders in the run up to the next renewal date.
18. Following the outcome of a full year of debt collection activity in 2007-08, covering all cases, the Agency should consider the case for further penalties on persistent evaders. This would require legislative extension of regulations and powers.

## Scope of this Report

19. This report focuses on the following:

- **Performance against targets**
  - Target to reduce evasion
  - Motorcyclist evasion rates
  - Target to reduce the number of persistent evaders
  - Efficiency target
  - Target to improve the accuracy of the vehicle database
- **Measuring and estimating evasion**
- **Enforcement**
  - Licensing gaps
  - Statutory off road notifications
  - Use of county court and debt collection agencies
  - Reminders and penalties for persistent evaders
  - False plates

## Performance against targets

20. The Agency's key targets in relation to the collection and enforcement of VED were to:

- Reduce VED evasion loss to 2.9 per cent by 31 January 2007 and to 2.5 per cent by December 2007;<sup>2</sup>
- Reduce by 50 per cent the number of persistent evaders of VED from the June 2002 figure by 31 January 2007;<sup>2</sup>
- Generate an additional £70 million annual revenue through reduction in evasion of VED, by 31 March 2008 (Gershon efficiency target);<sup>3</sup> and
- Maintain 97.5 per cent of current vehicle keepers as the level to be successfully traced from the record (and to remain at 97.5 per cent to June 2008).<sup>2</sup>

21. The Secretary of State announced to Parliament on 28 March 2007 new targets for the Agency for 2007-08.<sup>4</sup> These do not include a new target to reduce by 50 per cent the number of persistent evaders.

22. The Agency conducts a roadside survey of over one million passing vehicles annually in June to identify unlicensed vehicles. Statistical weightings are then applied to the observed evasion rate in traffic (measured at 2.0% in June 2005 and 2.2% in June 2006) to calculate the estimated evasion in overall stock of vehicles, and then the estimated VED revenue loss

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<sup>2</sup> Secretary of State targets as set out in the Agency's 2006-07 Business Plan: [www.dvla.gov.uk/media/pdf/corp\\_docs/dvla\\_business\\_plan.pdf](http://www.dvla.gov.uk/media/pdf/corp_docs/dvla_business_plan.pdf)

<sup>3</sup> Efficiency target as set out in the Department for Transport's Efficiency Technical Note: [www.dft.gov.uk/about/how/psa/efficiencyprogrammetechnicalnote](http://www.dft.gov.uk/about/how/psa/efficiencyprogrammetechnicalnote)

<sup>4</sup> Written statement to Parliament on 27 March 2007, Hansard columns 78WS to 82WS

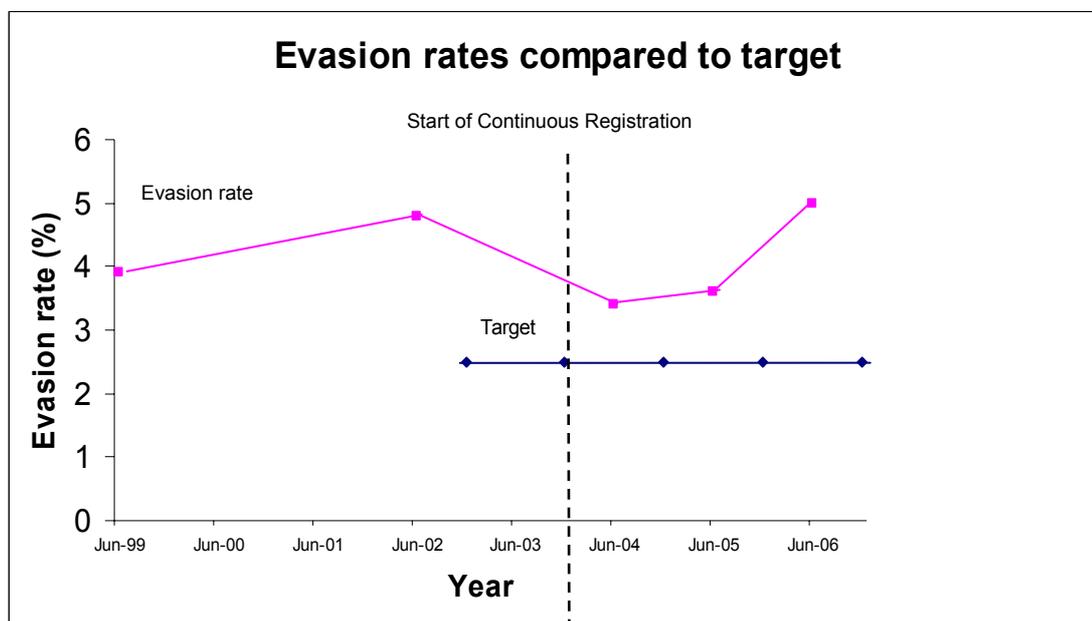
(estimated at 3.6% for 2005-06 and 5.0% for 2006-07). The results are used to report performance against the first three targets set out above, whilst recognising that the dates of the surveys in June do not coincide with the target dates in December, January and March. Better alignment of target and measurement dates was agreed for the next tranche of targets to be set, to improve the clarity of reported progress. This next tranche of targets, likely to cover the spending review period 2008-09 to 2010-11, was under discussion at the VED Governance Board at the time this report was finalised.

23. The roadside survey remains the only externally measured source of estimates of on-the-road licence duty evasion, although the Agency uses internal estimates based on Automatic Number Plate Recognition (ANPR) data and business activity figures for management purposes.

### Target to reduce evasion

24. Based on the statistical calculations outlined above, the 2006 roadside survey estimated that the loss of VED due to evasion was some 5.0 per cent (£217 million) against the Agency's published targets of 2.9 per cent by 31 January 2007 and 2.5 per cent by December 2007. This was a significant increase over the 3.6 per cent evasion rate reported in the previous year. Figure 1 below shows the evasion rates since 1999.

Figure 1: Evasion rates



Source: Roadside survey 1999, 2002, 2004, 2005 and 2006

25. The reported 5 per cent evasion rate means that the Agency has little prospect of meeting its target to reduce evasion loss to 2.5 per cent by December 2007. Actions taken by the Agency during 2006-07, but too late to influence the 2006 survey results, included doubling wheel-clamping efforts, the introduction of debt collection agents and new publicity

material. The Agency believes these actions will reduce future evasion levels.

26. In 2005-06 the Agency attributed the increase in evasion between the 2004 and 2005 roadside surveys in part to the absence of advertising in the run up to the 2005 survey due to the General Election. Advertising had been carried out before the 2004 survey. However, the 2006 survey results showed an increase in evasion despite the advertising that took place in the run-up to the 2006 survey. The impact of advertising may therefore be less than anticipated or was outweighed by other factors, such as those listed at paragraph 37 below. The Agency has revised its advertising in the light of experience but has yet to develop measures through which it can assess the effectiveness of advertising, which cost £5.4 million in 2006-07 (£4.1 million in 2005-06) and the impact on evasion rates.

### **Motorcycle evasion rates**

27. The 2006 roadside survey confirmed that motorcyclists remain by far the most likely group to evade VED, with an evasion rate of 37 per cent in the vehicle stock, up from just under 30 per cent in 2005. Motorcyclists are also the least traceable of vehicle keepers. The Agency considers that the main reasons for evasion remain as in previous years:
- Insurance is costly and people therefore ride without insurance and VED;
  - Motorcycles are easy to store off-road where enforcement action cannot be taken; and
  - On road enforcement (i.e. pulling vehicles over rather than using photographic evidence) is particularly difficult with motorcyclists as they can easily evade physical detention by enforcement officers.
28. Historically, enforcement action has not been aimed specifically at motorcyclists. The Agency has, however, now deployed targeted measures including:
- Roll out of Automated Number Plate Recognition (ANPR) equipment capable of reading motorcycle rear number plates;
  - Specific on-road checks supported by the police and wheel clamping teams (with offending vehicles being impounded at the road side or taken away);
  - Enforcement and education activities at motorcycle rallies and shows; and
  - Advertising aimed directly at motorcyclists.
29. In my previous report, in July 2006, I recommended that the Agency should review the effectiveness of the advertising and enforcement operations specifically targeted at motorcyclists. The further increases in already high evasion rates amongst motorcyclists undermine the public's confidence in the Agency's enforcement regime. The Agency recognises this and plans to review advertising and enforcement effectiveness in 2007-08.

## Target to reduce the number of persistent evaders

30. The Agency's measures to tackle VED evasion contribute to government-wide measures to reduce vehicle related crime and crime more generally. Based on police statistics, about three-quarters of persistently untaxed vehicles are thought to be used by people involved in some other criminal activity. The extent and nature of the Agency's anti-evasion activities include coordinated work with partners and seek to serve each others' interests, rather than focus solely on VED collection. The Agency's targets included therefore (a target to reduce by half by January 2007, the "vehicle underclass", a term which refers to vehicle users who persistently do not comply with motoring laws. The agreed definition is:

"Vehicles that are used on the road with one or more of the following characteristics:

- Untaxed for at least 3 months
- Between keepers for at least 3 months
- Keeper with an unallocated post code (as a rough indicator of vehicles registered to a false name or address)
- Vehicle Registration Mark that does not appear on the Agency record (an indicator of vehicles with false or tampered number plates)
- Vehicle Registration Mark registered to a different vehicle type or model (an indicator of vehicles with false or tampered number plates, or vehicles that have been 'imperfectly' falsified)
- Declared scrapped".

31. The vehicle underclass was estimated at 970,800 vehicles, or 3 per cent of the total vehicle population based on the 2002 roadside survey results and the Agency's vehicle record at June 2003.<sup>5</sup> The results of the 2006 roadside survey suggest the target of halving the vehicle underclass is unlikely to be achieved, as the Agency acknowledges. The Agency has a responsibility to take VED enforcement action against such people although it cannot influence the behaviour of this group acting on its own. Progress against the target has not been reported on publicly since its inception. A new underclass target was not included in the Agency's Ministerial targets for 2007-08, announced on 28 March 2007, as the Agency does not have sufficient scope to influence the vehicle underclass. The Agency and the Department have begun discussions with the Home Office to consider how enforcement action against this group of evaders can be most effectively delivered.

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<sup>5</sup> The estimate of the extent of the vehicle underclass is undertaken for the Agency by the University College London Jill Dando Institute of Crime Studies, as a key partner in this work. See that institute's publication "Estimating the size of the 'vehicle underclass'" March 2004. ([www.jdi.ucl.ac.uk/publications/research\\_reports/vehicle\\_underclass\\_report.php](http://www.jdi.ucl.ac.uk/publications/research_reports/vehicle_underclass_report.php))

## **Efficiency target**

32. The Gershon Programme Efficiency Target was specified in July 2004 in terms of collecting an additional £70 million annual revenue from the licensing of vehicles through reduction in road tax evasion (not deriving from increases to the rate of VED or the numbers of vehicles in stock, and not deriving from changes to the six/twelve month tax disk balance or the mix of graduated VED bands). This reduction is to be achieved by the end of March 2008. The Department's Efficiency Technical Note states that baseline evasion for calculating improvements was 4.8 per cent of vehicles on the road, shown in the annual roadside survey results from 2002 when evasion was £206 million. The Agency has little prospect of achieving its evasion target of 2.5 percent by December 2007, as measured by the 2007 roadside survey, or the related Gershon efficiency target to generate an additional £70 million annual revenue through reduction in evasion by 31 March 2008. However, the Agency remains optimistic that these targets may be achieved if measured by the following year's roadside survey as by then the Agency's recent measures will have operated for at least a full year.

## **Target to improve vehicle database accuracy**

33. The Department and the Agency consider the vehicle database accuracy target to be key to improving performance overall, as was recognised also in my report on "Reducing Vehicle Crime" (HC183, 2004-05). The Agency's database accuracy survey in October 2005 showed 97.4 per cent traceability of vehicle keepers (92.4 per cent were immediately traceable) compared with 90 per cent in 2003. The Agency's latest accuracy survey commenced in the first half of 2007 but will not conclude until the end of 2007. Future increases in traceability will be restricted by failure of customers to notify the Agency of change of name or address and failure to notify the Agency when they buy, sell or scrap their vehicle.

## **Estimating and measuring evasion**

34. The full results the 2006 roadside survey were published on the Department's web site three months late, in January 2007, as a result of data and processing problems. The survey results are part of National Statistics and subject to rigorous quality assurance. Before the results were published, the Agency and the Department undertook additional analysis of vehicle records, to address concerns about a significant increase in the number of inadequate matches between survey data and the Agency's records.

35. The Department and Agency recognised the need to understand fully the reasons behind the significant increase in evasion, especially as it ran counter to some of the Agency's own management information which showed that:

- VED income had increased;
- Data from local office ANPR cameras showed a decreasing trend in evasion in traffic; and
- Results of relevant policing operations showed a lower evasion rate.

36. Detailed examination of the roadside survey analysis led the Department and the Agency to improve their understanding and quality reviews of the statistical methodology, business model assumptions and certain data extraction processes. The Department and the Agency commissioned in 2007 a review of the survey process, including an independent panel which is expected to report later in 2007. These actions are focused on improving future data quality. The Department and the Agency nevertheless accepted the published results while continuing to work to develop a full understanding of the apparent anomalies brought to light.
37. The Department and the Agency also agreed the need to develop a structured research programme to investigate further the possible impact on the 2006 survey results of the following issues:
- VED licensing systems might not address sufficiently retrospective licence cover when a vehicle keeper re-licenses late (see section below on licensing gaps);
  - Congestion charging and Automated Number Plate Recognition (ANPR) enforcement may influence behaviour - especially avoidance of congestion charging and other crime - leading to more unlicensed vehicles being seen in the survey;
  - Increase in evasion related to vehicles on the road when the keeper has previously declared them to be permanently off the road;
  - Increase in trade plate related sightings;
  - Increase in the number of misread data and the number of mismatches to the Agency's records; and
  - Emergence in 2006 of significant numbers of brand new vehicles shown as unlicensed despite the automated first registration processes which should ensure VED is paid on all new vehicles before delivery.
38. Several of these issues may reflect new behaviours by vehicle keepers and the Agency plans to continue work to establish whether this is the case, together with the extent of any impact on evasion rates, the periods over which these issues have had an effect, and the appropriate response.
39. The Agency and the Department recognise that other sources of information exist which may contribute to evasion estimates, although each also pose challenges. Police forces and other agencies increasingly use Automated Number Plate Recognition (ANPR) cameras to capture data on vehicle movements, and this data could offer useful information about the level of VED evasion. However, as ANPR use is usually targeted at particular risks, expert statistical interpretation of the results would be needed if such data were to be used to estimate the overall national evasion level. Nevertheless, ANPR data also has advantages - for example it is geographically pervasive, covers the whole period under review and scans far greater numbers of vehicles during the year than the roadside survey.
40. Using the Agency's continuous registration database as a basis for estimating the overall evasion level would necessarily omit unregistered vehicles and those incorrectly declared as being off the road, while actually on the road. As the Agency and the Department review the future of the

roadside survey, they need to consider its utility and cost, and the alternative sources of estimates, even if they are only partial and closely targeted. Estimates of the overall evasion rate remain of most use if they inform consideration of the options for action against VED evaders.

41. As the level of VED receipts had increased in 2006-07, which ran contrary to the increase in evasion estimated from the roadside survey results, in early 2007 the VED Governance Board requested the Agency to explore an alternative methodology for measuring performance against the Gershon income target in 2007-08 based on actual VED income collected. This alternative methodology will also be subject to independent review and performance will be derived mainly from the Agency's records. The measure will assess growth in VED revenue rather than estimated changes in on-road evasion levels. This approach may necessitate a change in the detailed specification of the target, although not the total amount of additional revenue collected. The new measurement methodology had not been finalised at the time of this report, and will be evaluated by the NAO next year.

## **Enforcement**

### **Licensing gaps**

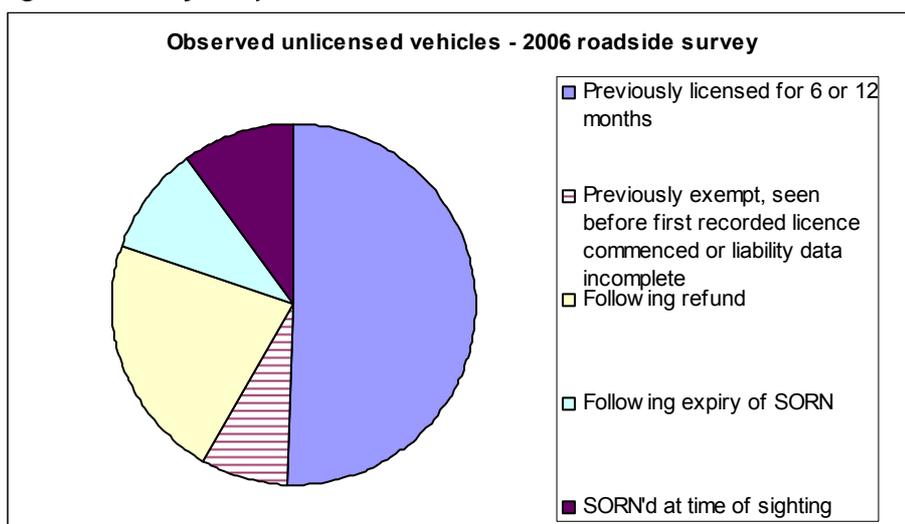
42. My staff identified that a small number of licence payers could and had avoided a month's VED without being subject to a penalty. On expiry of a licence, the Post Office offers renewal for the period commencing on the first of the month in which a customer applies, regardless of whether this is a month or more after their previous licence ran out. The Agency issues Late Licensing Penalties (£80 each, with £40 discount for prompt payment) to those who have not renewed their vehicle licence two months after the end of the previous expiry date. However, customers who obtain a licence starting a month after their previous licence has expired (leaving a licensing gap of a month) are not issued with penalty notices and are not therefore subject to the Agency's current enforcement regime. This situation reflects the length of time it used to take for the Post Office to notify licensing activity to the Agency under the old paper-based system.
43. The Agency's Electronic Vehicle Licensing (EVL) system enables customers to pay VED and obtain a vehicle licence over the internet, rather than having to go to the Post Office or an Agency office. The EVL system was rolled out to be available to all vehicle keepers in January 2006, although it was March 2007 before all vehicles being relicensed were covered by the new system. In the first full financial year of impact, 2006-07, some £450 million (10 per cent) of VED revenue was collected through this electronic channel. EVL was designed to provide an electronic parallel to the Post Office system and consequently the same licensing gaps may occur. The Agency has not estimated the VED revenue lost due to licensing gaps, or analysed its impact on evasion rates.
44. In the light of the NAO's observations, the Agency plans to take to the VED Governance Board a cost-benefit analysis for modification of the Continuous Registration system to issue Late Licensing Penalties to customers who miss one month's tax. The Agency also plans to change the wording of the

Continuous Registration notice so as to highlight that these customers can re-licence immediately using the EVL system.

### Statutory Off-Road Notification (SORN ) related offences

45. Vehicles kept off the road are not subject to VED provided the Agency receives a Statutory Off-Road Notification (SORN). This notification must be renewed annually. It is an offence to drive a vehicle on the road while the vehicle is registered as off-road but offenders can only be detected if caught on the road. The offence is not enforceable from the Agency's vehicle database records alone, and hence potential VED evaders could regard being caught on the road in a vehicle which is subject to a SORN as a lesser risk than not being licensed at all, even though the fine, if caught, is much higher.
46. In June 2006 the NAO suggested that the Agency and the Department should analyse the roadside survey data to determine the incidence and growth of potential SORN-related offences as a guide to future action. The Agency asked the Department for Transport statistics branch to analyse that sort of evasion following the June 2006 survey and also the equivalent data from the 2005 survey. Figure 2 below shows the breakdown of observed unlicensed vehicles for 2006. The analysis revealed that those continuing to drive on the roads vehicles registered as off-road had risen over the year from 9 per cent to 10 per cent. Identical results are shown for vehicles where the last off-road notification had expired without subsequent re-notification or relicensing. From 2007-08 the Agency's publicity material has emphasised that it is actively seeking such offenders, and sets out clearly the higher penalties imposed on them. Operational enforcement activities also reflect this position and the Agency aim to pursue vigorously those who are detected on the road whilst registered as off-road.

Figure 2: Analysis of unlicensed vehicles



Source: Department for Transport Statistics branch figures

## Use of the County Court and Debt Collectors

47. Under the Continuous Registration scheme introduced in 2004, registered keepers who fail to re-license their vehicle or declare SORN within 2 months of expiry of the last licence, receive a Late Licensing Penalty. They can settle the offence on payment of a £80 penalty (reduced to £40 if payment is made within 28 days).
48. Non-payment of Late Licensing Penalties is enforceable through the civil courts, potentially leading to a County Court judgement against the vehicle keeper. In 2006-07 the Agency forwarded to the County Court 9,000 cases each month, an administrative limit agreed for the Agency. This was half the number of cases applied for in 2005-06 as a result of the decision to channel more cases towards debt collection agencies. In 2006-07 the Agency closed some 165,000 of the 491,000 of the Late Licensing Penalty cases not pursued, on compassionate grounds or where the Agency established that no offence had been committed.
49. In addition to pursuing debts through the courts, in 2006-07 the Agency trialled the use of three debt collection agents to recover outstanding Late Licensing Penalties from vehicle keepers residing in England, Wales and Scotland. For the purposes of the trial, the debt collection agents were not required to enforce compliance in respect of re-licensing or declaring vehicles off-road, to take cases to court, or to collect outstanding VED due.
50. The trial's success was measured mainly in terms of the amount of outstanding penalties recovered, issues raised and the number of complaints. The debt collection agents secured payment - either fully or by instalment plan - in over 20 per cent of the cases referred to them.<sup>6</sup> The Agency extended the trial for a period of 3 months while a tender exercise was carried out to procure debt collection agents for the long-term. The Agency took the opportunity to review ways in which debt collectors can encourage compliance regarding re-licensing, SORN and notification of changes in details as part of the new contract.
51. Figure 3 below shows the outcome of all Late Licensing Penalties issued during 2006-07 and compares this to the outcomes reported in 2005-06.

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<sup>6</sup> At the end of March 2007, 17 per cent of cases had been fully paid and 5 per cent of cases were paying in instalments.

Figure 3: Outcome of Late Licensing Penalties

	2005-06		2006-07	
	Number of cases '000	Proportion of Notices issued	Number of cases '000	Proportion of Notices issued
Late Licensing Penalty Notices issued	1,279		1,272	
Late Licensing Penalty Notices paid <sup>(1)</sup>	465	36%	486	38%
UnPaid	814	64%	786	62%
Of which Not Pursued	619	48%	491	39%
Court Claims	216	16%	108	8%
Less Court Claims Paid <sup>(1)</sup>	(21)	(2%)	(29)	(2%)
Cases sent to debt collectors	N/A	N/A	274	22%
Less paid debt collection cases	N/A	N/A	(58)	(5%)

Source: Data provided by DVLA

(1) Includes late penalties paid in 2006-07 but issued in previous financial years and has a cut-off date of May 2007.

52. Some 491,000 (over 60 percent) of unpaid 2006-07 Late Licensing Penalties were not pursued through the courts or through debt recovery agents. This figure remains unacceptably high, although it represents an improvement on the previous year mainly due to the debt collection trial. Figure 3 suggests that penalties pursued through the courts have a higher payment rate than those passed to debt collectors. This outcome may be due timing differences, however. Penalties paid in 2006-07 following court intervention may have been issued in 2005-06, enhancing 2006-07 collection performance. By comparison, performance of debt collection agents will only reflect collection of penalties issued during 2006-07. The Agency should undertake analysis similar to that in Figure 3 on a regular basis. The analysis should inform its future collection strategies in terms of the proportion of Late Licensing Penalties pursued through the courts and via debt collection agents, and also on which collection methods remain the most effective. The analysis could be extended to consider the overall costs of the alternative channels (some £2.3million on the Court cases and £900,000 on the debt collection trial), and the benefits which might be

obtained from marginal or additional spending. That analysis would be of most value after the extension of the debt collection work for a full year.

53. Payment of the Late Licensing Penalty, whether directly or as a result of the Court or debt collectors, does not entail paying also for the vehicle licence. NAO examined a sample of 384 Late Licensing Penalty cases issued during 2005-06 and found that nine months into 2006-07 some 44 per cent were unlicensed and of those one third related to vehicles that had last been recorded as Off-Road. This evidence emphasised the importance of the Agency tackling firmly the evasion related to Off-Road registration.

### **Reminders and penalties for persistent evaders**

54. As noted above, the Agency sends VED renewal reminders to vehicle keepers recorded on the vehicle database followed by late licensing penalties and in some cases, the Agency also takes Court or debt collection actions. The Agency does not send reminders or any other notification at what would have been the next renewal date to those being pursued for penalties or through other enforcement actions, or to those who do not re-license. Large numbers (491,000 or 62 per cent) of non-payers were subject to no action at all beyond the Late Licensing Penalty Notice in 2006-07. The Agency considers that it would not be cost-effective to send reminder letters to hardened evaders who have already ignored earlier letters, and there is no provision for second or subsequent penalties. The Agency's also considers that its revised strategy to use debt collection agents to pursue all non-payers by the end of 2007 will now effectively act as further reminders. In their view therefore, offenders should recognise that debt and non-compliance will be pursued. The Agency also plans, from 2007-08, to pursue those hardened evaders who fail to respond to debt collection action through further wheel-clamping operations based on debt collection agency information. Debt collection may be further extended to include action on licensing as well as penalties.
55. As large numbers of persistent evaders remain- possibly up to half a million - the Agency should evaluate the benefits which might be achieved through extending the enforcement processes for subsequent renewal dates. The NAO recommends that following a full year of debt collection activity, covering all cases, the Agency and the VED Governance Board should also evaluate the results of the first full year of debt collection activity to inform their consideration of the case for further penalties for persistent evaders. This would require legislative extension of regulations and powers.

## **False Plates**

56. Automated Number Plate Recognition (ANPR) cameras and software are used for many purposes, including congestion charging in London, at petrol stations to identify vehicles that have been driven off without paying, in car parks for security, and by the police and the Agency. The ANPR technology is generally accepted and widespread and in some cases is admissible in court as primary evidence of an offence. However, drivers' motivations for using non-traceable number plates are increasing, and are leading to growing problems with false number plates. Common problems are invalid, stolen and cloned numbers, foreign formats, illegal grouping of characters, illegal fonts and illegally modified reflective backing on number plates. All are designed to frustrate ANPR recognition and identification of the vehicle, and they impact upon the effectiveness of the enforcement activities of DVLA and other agencies.
57. The Agency consider that part of the problem could be addressed through stronger controls and restrictions on the volume of number plate suppliers and outlets, estimated at possibly 30,000 in Great Britain. Other suggestions for reducing the problem of false plates include tamperproof fixings and use of smart number plates which include chips similar to those found in credit cards. The Agency has considered the risks arising from invalid number plates, and their impact on enforcement and the roadside survey to estimate evasion. It monitors adherence to number plate regulations at number plate suppliers and works with the Police and Trading Standards to prosecute those suppliers who flout the law. The Agency has recently been granted powers to conduct its own prosecutions, which it plans to utilise in the near future. In addition, the Agency has developed and promoted a standard for theft-resistant number plates with the Police and Home Office.

**John Bourn**

**Comptroller & Auditor General**

**10 July 2007**