VEHICLE CERTIFICATION AGENCY

An executive agency of the Department for Transport

Annual Report and Accounts
2006 - 2007

Presented to Parliament in pursuance of the Government Resources and Accounts Act 2000

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CHIEF EXECUTIVE'S FOREWORD

I am very pleased to report that VCA delivered an excellent set of results this year, meeting all of our Secretary of State (SoS) targets. This was the second year of our 10 year Vision and Business Plan developed by the VCA Management Board at the end of 2004 which was designed to generate a sustainable and effective future for the Agency, delivering a first class service, where and when our customer base demands. The Agency staff have worked hard to deliver this plan, and we are now ahead of target. It is also the second year running that we have met all our SoS targets, I am also extremely pleased to report that all product areas of the Agency contributed to this performance, as did the new start-ups in China and India.

Building on a successful 2005-2006, our Business Plan for 2006-2007 included a significantly stretched budget, with investments in training and capability development, infrastructure to support the growth and ICT improvements, plus the opening of VCA India. We planned to generate a full surplus of £50k with an income of £10.4 million; we exceeded this with a £91k full surplus on an income of £10.15 million, showing excellent growth on the £8.82 million income recorded in 2005-2006. Our performance and margins continued to improve during 2006-2007 with an operating surplus of £220k against £80k in the prior year despite translation exchange losses of £145k.

Our performance in VCA China in 2006-2007 has exceeded our forecast, delivering a contribution in its second year of operation. We now have 6 engineers based in Beijing, and the work has expanded from motorcycle approvals, to a range from components through motorcycles and passenger cars to trucks and buses.

We followed this in October 2006 with the launch of VCA India, in the presence of HRH The Duke of York, and have agreed a Memorandum of Understanding with the Indian Government Agency NATRiP, as they invest in new testing facilities.

VCA continues to invest in knowledge and capability, and created a new branch, Technology and Quality Support, dedicated to ensuring that technical and quality standards are maintained and improved across the growing Agency, underpinning our brand values of Technology, Service Delivery and Customer Satisfaction.

The Agency was part of the Driver, Vehicle and Operator (DVO) Group of agencies in the DfT, which was widened to become part of the Safety, Service Delivery and Logistics (SSDL) Group from April 1 2007. VCA will continue to contribute and play an active part in the SSDL Group. The Vehicle Technology Forum, with representation from the SSDL Strategies and Resources Directorate, plus the other SSDL Agencies, the Highways Agency, and the relevant DfT Policy branches, focuses on the emerging vehicle technologies, ensuring an integrated approach across the department. This forum is now taking a more strategic role in the coordination of the vehicle related research activities, and the emerging vehicle electronics issues.

I am also pleased to report that the Agency investment in its future included preparation for the transfer of the Dangerous Goods Certification activities from PIRA (Packaging Industry Research Association), and from 2 April, these responsibilities fell within the Agency's remit.

Finally, I would like to thank all the staff of the Agency for their commitment and endeavour through the past Financial Year. The contribution of each individual in our Agency, across our global network, has generated an excellent set of results, and we can look forward to a sustainable and effective future.

Paul Markwick
Chief Executive and Accounting Officer
29 June 2007

INTRODUCTION

The Vehicle Certification Agency (VCA) was established as an Executive Agency in April 1990, and following Machinery of Government changes became an Executive Agency within the Department for Transport (DfT) on 29 May 2002. Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury have directed the Vehicle Certification Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the annually updated Accounts Direction (Dear Accounting Officer letter DAO(GEN)12/06 for 2006-2007).

The VCA was part of the Driver, Vehicle and Operator (DVO) Group of agencies in the DfT, which subsequently changed to the Safety, Service Delivery and Logistics (SSDL) Group from April 1st 2007 following a major reorganisation developed by the new Permanent Secretary, as a positive response to the Eddington and Stern reports in Autumn 2006. VCA is the UK authority responsible for ensuring that vehicles and vehicle parts have been designed and constructed to meet internationally agreed standards of safety and environmental protection (under sections 54 to 65 of the Road Traffic Act 1988 and section 2(2) of the European Communities Act 1972). In direct support of this VCA provides information derived from Product Certification (PC), which includes Type Approval, results to other DVO agencies, the public, and also conducts a range of enforcement activities on behalf of DfT and the Department of Trade and Industry (DTI). The VCA also provides Management System Certification (MSC) services to ISO 9001, 14001 and other standards that allow the automotive industry to demonstrate that they have processes and systems in place, not only to ensure the quality of their products, but also to minimise their effects on the environment and to make continuous improvement to the manufacturing and design processes.

The Agency operates in the global automotive industry, and has a growing network of offices and representatives in established automotive industry locations. It has to operate within a commercial arena, competing with both overseas government supported activities, and fully private enterprises. Other European bodies have approved many vehicles and products that are currently available in the UK, and the VCA accepts these approvals through the UK's obligations under Article 100 of the Treaty of Rome (Mutual Recognition procedure).

The VCA provides a practical contribution to the DfT objectives of reducing deaths, injuries and the damaging environmental effects arising from transport. It also provides a UK base for the UK automotive industry to gain legislative access to Europe and other territories that accept European or United Nations/ECE approvals. The Agency Headquarters are in Bristol, with the remainder of the UK based staff operating from our Midlands Centre at the Motor Industry Research Association (MIRA), near Nuneaton, and Millbrook Proving Ground, near Bedford. The Agency has staff operating overseas from offices in the USA, Japan, Malaysia and, China with the new VCA India office opening in October 2006. There are representative offices in Korea and Taiwan, plus an extensive network of appointed Technical Services plus Memoranda of Understanding with leading independent providers. These work under the auspices of VCA to provide a worldwide service across the range of automotive testing and certification standards.

Since 1999, the DVO group of agencies has made great progress in improving the co-ordination of motorists' services and providing an integrated offering to drivers, vehicle keepers, operators, the automotive industry and other customers, whilst improving consumer protection, road safety, crime prevention and protecting the environment. The VCA is an important link in the network of supplying information for the services of other Agencies within this group and for supporting the policy divisions of DfT Central. VCA is fully committed to the Government's Value for Money programme, with significant savings achieved already.

One of the real tests for the Agency is the ability to compete successfully. It aims to do this by providing a high quality value proposition through integrity, flexibility, and speed of delivery, supported by accurate information and interpretation of relevant standards. Another test is to perform the statutory public role of ensuring standards are met effectively, whilst at the same time helping UK and other automotive industry manufacturers to gain certifications which allow them access to markets in Europe and beyond. Above all the integrity of the VCA brand is a key differentiator within this commercial sector, and the Agency will continue to work hard to positively develop the brand and its operating values.

AIMS

2006-2007 VCA Business Plan

The purpose of VCA is to deliver DfT policy in respect of new vehicle Product Certification, and to support the DVO vision with a range of related product offerings.

The VCA aims and objectives are described as: -

Effective Services to Customers

- by providing approval, certification, related services and advice.
- by adding value, responding to the needs of industry and government on price, speed, flexibility and effectiveness.
- by working with other parts of the DVO group and our worldwide partners to help ensure our services are delivered in a seamless, integrated and innovative fashion.
- by developing tools and techniques to support the emerging technologies including virtual testing, and electronic engineering.
- by operating in real time and geographically where our customers require.
- by improving access to the VCA products through expanding our global presence.

Improved Road Safety

- by ensuring through vehicle type approval (TA) schemes, support and information provided to manufacturers, that new vehicles, systems and components are designed and manufactured to appropriate road safety, environmental protection and crime prevention standards.
- by working with DfT and DTI policy colleagues, so that our operational experience helps their formulation of future standards and schemes, plus developing our capabilities and expertise.
- by exploring with DfT policy colleagues the potential safety benefits of emerging automotive technologies.

Improved Journey Reliability on the Road

- by supporting DfT on the development of emerging technologies for road user charging.

Better Regulation

- by developing virtual type approval technologies to support the industry needs to improve vehicle design, safety and reliability and to reduce engineering costs and product time to market.
- by developing expertise and capability in electrical and software engineering, reflecting the rapid increase in electronics and functionality in new vehicle technology.

Tackling Environmental Damage

- by enforcing European Directives for road vehicles on gaseous emissions, CO_2 and noise.
- by conducting full emissions testing on in-service passenger cars up to 3 years old, in support of the TA regulations.
- by publishing CO_2 data on our web site.
- by supplying CO_2 data and Point of Sales software to car dealers to inform citizens considering new car purchases.
- by enforcing NRMM (non road mobile machinery) noise and gaseous emissions standards.
- Development of the RTFO scheme for introduction in April 2008.

Improved Value for Money

- by continuously improving effectiveness and efficiency through our Value for Money plan, recovering costs taking one year with another and meet financial and performance targets set by the Secretary of State.

Our mission is to ensure that:

VCA is the best automotive approval and certification service and a leader in the provision of type approval information and enforcement services.

2006-2007 SECRETARY OF STATE TARGETS

The VCA key performance targets are agreed by the Secretary of State, and support those of the DVO Group. Having achieved significant progress in 2006-2007, VCA intends to continue along this path in 2007-2008 and beyond, meeting the needs of Government and industry.

Deliver **better services to customers** *(Customer focus)*

DVO Target Area	VCA Targets	Measures	Status	Comments
Maintain quality of services	To be the class leader in acceptance of type approval certificates by other authorities.	• Implementation of Type Approval Support Group by June 2006.	Achieved	
		• 50% turnaround of system and component type approval certificates within 5 working days.	Achieved	53.36%
		• 95% of appraisal reports on our technical performance from independent panel members deemed to have no critical defects.	Achieved	100% achieved, no critical defects found.
Maintain customer satisfaction	Improve customer satisfaction in core MSC market sector.	• Existing customer survey to be run in 2006-2007 and maintain at least 4/5 score (Very Good).	Achieved	

Deliver **better outcomes for citizens** *(Citizen focus)*

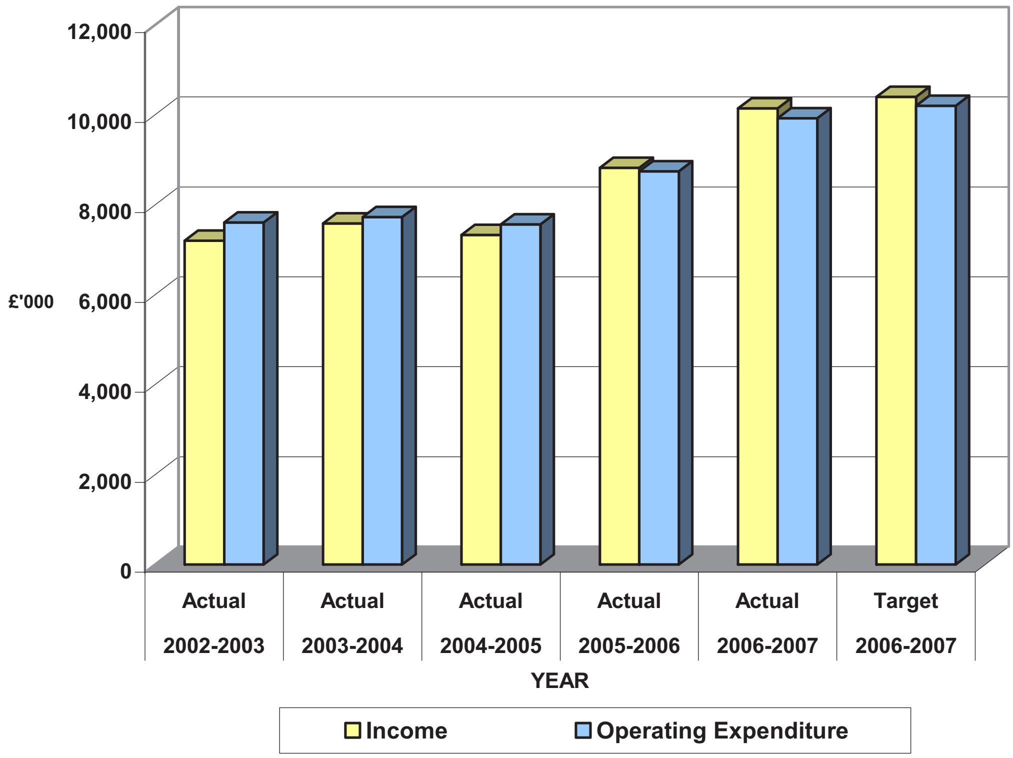
DVO Target Area	VCA Targets	Measures	Status	Comments
Improving road safety	Development of consumer information for secondary safety systems.	• In support of DfT policy development: To test two whole vehicles against current EC Directives/UNECE Regulations.	Achieved	Testing completed by March 2007.
		• To complete a programme of testing on child restraints according to UNECE Regulation 44.	Achieved	Testing completed by March 2007.
	Target new emerging manufacturing markets to ensure that products fully meet EU standards.	• Increase number of certificates issued by VCA in China and India by 20% over 2005-06.	Achieved	
		• Develop strategy by November 2006 to increase enforcement testing of imported vehicles, systems and components	Achieved	Testing completed by March 2007.
Reducing environmental impact	To carry out and enforce an annual programme of in-service emissions testing by March 2007.	• Milestones to facilitate the RTFO administration scheme by March 2007.	Achieved	

Deliver **better outcomes for citizens** *(Citizen focus) - **Continued***				
DVO Target Area	**VCA Targets**	**Measures**	**Status**	**Comments**
Better regulation	Develop capability for virtual testing and conduct one parallel virtual/ physical test	• Correlation test by December 2006 • Development of capability in line with EU legislation.	Achieved Achieved	

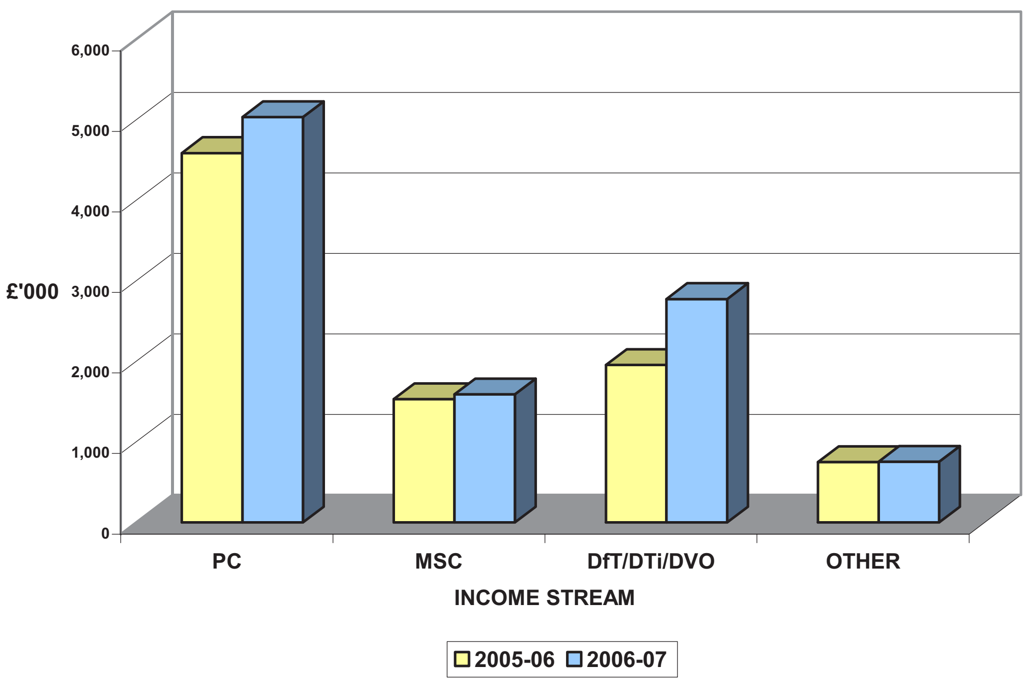
Deliver **better value for money** *(Tax and fee payers focus)*				
DVO Target Area	**VCA Targets**	**Measures**	**Status**	**Comments**
Increase staff productivity	Increase utilisation by an additional 3% points.	• Plan to reduce costs and to improve utilisation year on year.	Achieved	5%
Delivery efficiency review targets	To achieve a surplus on a full cost basis and deliver benefits consistent with the Value for Money plan.	• To achieve a £50k surplus on a full cost basis. • Deliver the benefits consistent in the Value for Money Plan achieving at least £200k of cost savings and £200k efficiency and effectiveness improvements.	Achieved Achieved	£91,075 surplus. £492k (total savings, £227k effectiveness, and £265k efficiency).

MANAGEMENT COMMENTARY

INCOME & EXPENDITURE TOTALS: 2002-2003 TO 2006-2007



INCOME STREAM COMPARISONS 2005-2006 TO 2006-2007



PERFORMANCE AGAINST BUSINESS TARGETS

	2002-2003 Actual	2003-2004 Actual	2004-2005 Actual	2005-2006 Actual	**2006-2007 Actual**	2006-2007 Target (Business Plan)
Income	£7.20m	£7.59m	£7.33m	£8.82m	**£10.15m**	£10.40m
Expenditure	£7.61m	£7.65m	£7.53m	£8.75m	**£9.79m**	£10.20m
Operating Surplus/ (Deficit)	(£0.41m)	(£0.06m)	(£0.20m)	£0.07m	**£0.36m**	£0.20m
Cumulative Operating Surplus	£0.54m	£0.48m	£0.28m	£0.35m	**£0.71m**	£0.55m

Note: all figures exclude translation gains/loss on exchange and early retirement provision.

- **To achieve a £50,000 surplus on a full cost basis.** In 2006-2007 VCA was funded on the DfT, RfR (Request for Resources) 1 as a net programme cost body. It is required to cover its costs from income received. In 2006-2007 VCA's key financial target was to achieve a £50,000 surplus on a full cost basis; this was exceeded with a £91,075 surplus (£64,042 deficit 2005-2006). Operating surplus improved from £80,000 in 2005-2006 to £220,000 this year. This represented a £140,000 improvement over the prior year, however, after adjusting for translation gains/losses on exchange and early retirement costs this increases to £295,000, giving a comparable performance at the operating level of £361,000 surplus.

- As in previous years we have measured our operating performance after adjusting for translation gain/loss on exchange and early retirement provision (table above) for year on year comparison.

- Overall income from all our commercial activities increased by 15% year on year.

- Net assets increased by 8% (£319,000) due to an increase in tangible fixed assets, net current assets and a decrease in provisions for liabilities and charges. Overall debtors rose by £182,000, however, accrued income was reduced by £571,000 and trade debtors rose by £837,000 due to invoicing Central Government bodies before year end, improved invoicing processes and the increased level of turnover.

VCA Branch Performance

- **Product Certification Income**. Demand for type approval services was high throughout the year and in all geographical regions, leading to a global increase of 10% in income over 2005-2006 and after adjusting for effects exchange rates this rises to 12%. In particular, China and USA showed growth of 306% and 32% respectively, however, some of the rise in China was due to the transfer of Chinese based work from the Japanese office.

  VCA continued to be the chosen supplier of type approval services to many major global auto manufacturers with several new model programmes completed, as well as important new work from new customers. The retention of work from established customers is as much of a success as winning work from new customers; all customers regularly review the quality and cost-effectiveness of their suppliers and the supply of type approval services is no different.

- **Management System Certification Income.** This rose by 3% globally resulting in a positive contribution of £30,000 against a negative contribution £96,000 in 2005-2006. After adjusting for exchange rate movements like for like income was 7% up on the prior year and reversing the negative trend for the first time in three years.

  Price pressures continue within the market especially from some of our major customers. Activity levels have risen. but not as much as originally forecast in a re-certification year due to major restructuring undertaken by a number of our customers during the year. Our investment in business development, restructuring and systems are targeted to build on our progress this year by further increasing our customer base and improving our efficiency, effectiveness and delivery.

- **DfT, DTI and DVO income.** An increase of £820,000 (41%) was recorded over 2005-2006 this was largely due to an increase in compliance work on safety critical systems and components for DfT. Income from Central Government work as a percentage of total has risen to 27% compared with 22% in the prior year.

- **Business Opportunities.** The current automotive climate continues to offer good business opportunities for VCA. The agency is currently heavily involved in the education campaign and integration programme for the new framework directive for European Community Whole Vehicle Type Approval, which will put new and in some cases more stringent demands on various sectors within the Automotive market. This offers VCA the opportunity to expand its market share within both Product and Management Systems Certification. In addition the rapid globalisation of the industry supports VCA strategy and offers VCA the opportunity to enter emerging markets such as Turkey, Russia and others within the former Eastern block. This together with VCA's reputation for delivering a superb quality service with the integrity of a UK Government Agency, there are good potential opportunities.

- **Business Risks.** The potential risks facing VCA are the same as with many commercial organisations operating in a global environment, such as communication issues, culture, bad debt and currency fluctuation risks. Also ensuring that VCA's high standards and reputation remain our top priority whilst still maintaining steady market growth. Amongst other things, the Technical & Quality Support Branch was created during 2006-2007 to help mitigate this specific threat.

- **Future Direction.** The development of a 10 Year Vision and business plan and the success to date against it has reinforced the decision made in 2003 that VCA is a viable and valuable Agency within DfT. Subsequent reviews (by DfT/DVO) in 2005-2006 and 2006-2007 have also continued to confirm this view. In addition, the SSDL Board Chairman in May 2007 made the following statement in relation to VCA's 2006-2007 performance **'VCA's recording of a profit represented achievement of a significant and symbolic milestone'.** Further investment will continue particularly in technical competencies and overseas facilities so that the positive financial return achieved this year will continue.

- **Research and Development.**
  VCA has continued to invest in capability for the emerging technologies in vehicle engineering. Particular emphasis is currently placed on digital (virtual) testing, and new electronic devices.

- **Management Board.** The Management Board's members (MBM) during 2006-2007 were:

Mr P V Markwick, BSc CEng FIMechE	Chief Executive
Mr C Border, BA MCIPD	MBM for Central Services
Mr J Bragg, HND	MBM for UK Operations
Mr R Brayfield, MSc	MBM for North American Operations
Mr A Buckle, BA ACMA	MBM for Finance, Accounts and ICT
Mr A Grimm, BSc	MBM for Overseas Operations
Mr M Mulanvey, BSc	MBM for East Asia Operations
Mr B Perrett, BSc AMIMechE	MBM for Product Development and Enforcement
Mr A W Stenning, BSc CEng MIMechE	MBM for Technical and Quality Group
Eur Ing P Wilkes (Mrs)	MBM for Business Development

See the Remuneration Report for information on appointment terms, salary and pension entitlements for the Management Board.

- **Executive Management Board.** The role of the Executive Management Board is to advise the Secretary of State on the strategic and business plans of the Agency and on the Agency's performance against the objectives and targets set therein. The Chief Executive reports on the performance and operations of the Agency by means of quarterly reports. The Board's members during 2006-2007 were:

Dr S Hickey, D.Phil MA	DVO Group Director General, DVO
Ms V A Bodnar, MA BSc CEng MICE	DVO Group Strategy and Resources Director
Mr P V Markwick, BSc CEng FIMechE	Agency Chief Executive
Mr W Craig, BSc	External member
Mr M Runnacles	External Member
Mr I Yarnold	Deputy Divisional Manager Transport Technology & Standards DfT
Mr C Border, BA MCIPD	MBM for Central Services
Mr J Bragg, HND	MBM for UK Operations
Mr R Brayfield, MSc	MBM for North American Operations
Mr A Buckle, BA ACMA	MBM for Finance, Accounts and ICT
Mr A Grimm, BSc	MBM for Overseas Operations
Mr M Mulanvey, BSc	MBM for East Asia Operations
Mr B Perrett, BSc AMIMechE	MBM for Product Development and Enforcement
Mr A W Stenning, BSc CEng MIMechE	MBM for Technical and Quality Group
Eur Ing P Wilkes (Mrs)	MBM for Business Development

  No remuneration in respect of non-executive directors in their capacity as Executive Management Board members is made by VCA; they are remunerated by the DfT.

- **Bonus Scheme.** The Agency operates a group incentive bonus scheme that enables all eligible staff to benefit from increased efficiency. The trigger for the payment in 2006-2007 of a bonus is a surplus on the Income and Expenditure Account in excess of the published Business Plan target. Achievement of the range of service and quality targets is also necessary for payment of the maximum bonus. In 2006-2007 all targets have been achieved and £91,075 is included within the accounts for distribution.

- **Payments to Creditors.** VCA participates in the Departmental scheme for the payment of invoices. This follows the Treasury Prompt Payment Initiative, copies of which can be obtained from the Agency's headquarters. It is VCA's policy to pay undisputed invoices within 30 days of receipt. VCA measures its performance by reviewing all invoices paid, the Agency achieved 98.18% (98.32% 2005-2006) of invoices paid within 30 days of receipt in 2006-2007.

- **Pension.** Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in the Financial Accounts, Notes 1,h and 6,c.

- **Audit.** Audit fees charged in the accounts amount to £35,800 (£35,400 2005-2006).

SUMMARY OF BUSINESS OBJECTIVES AND ACHIEVEMENTS

Key Achievements

Effective Services to Customers

- 2006-2007 saw the successful launch of VCA India in New Delhi in October 2006. India has a rapidly growing automotive sector, supported by a highly educated, and low cost population, and a strategic direction from the Indian Government to increase exports tenfold over the next five years.

- VCA signed a Memorandum of Understanding with NATIS (The National Automotive Testing and Research & Development Infrastructure Project Implementation Society India) to approve the new testing facilities for international type approval testing, and to train and develop expertise in India.

- VCA was appointed as the UK National designated Authority for OECD tractor testing, following the closure of Silsoe Research Institute, thus allowing VCA to offer a "one-stop-shop" for certification of tractors to both EC and OECD standards.

- Established VCA North America as a full service supplier to manufacturers wishing to sell vehicles into many global territories, not just those countries that require or accept European certification. VCA North America responsible for planning compliance and approval programs and sourcing test service suppliers, such as test laboratories and proving grounds, giving the opportunity to add more value for these test services.

- Provided one full time dedicated European regulatory expert at Ford Motor Company in Detroit.

- VCA's China office has continued to grow with increasing demand for type approval services from manufacturers looking to export vehicles and components. The income for the year was £529,000 with the office now at nine staff strong, five of which are local engineers.

- The Technical and Quality Support Branch was established. This new Branch brought together support activities for both product certification and management certification work streams and now provides a foundation for consistent technical standards across VCA's expanding global operation, including, training new staff from the Korea and China offices, the development of a new interpretation logging mechanism and revision of the VCA Product Certification Quality Manual.

- Achieving accreditation from the Taiwan Authorities for testing to Taiwan standards.

- Management Systems Certification customer satisfaction improved on last year with an overall rating of 4.7 out of a maximum of 5.

- The re-launch of Management Systems Certification external training targeting primarily automotive clients.

- The appointment of VCA from 2 April 2007 as the UK administrator for the UN package certification scheme. The Dangerous Goods Packaging Certification Scheme consists of the administration of a scheme to certify packaging for dangerous goods under national regulations enacting the UN ADR on behalf of the Department for Transport's Dangerous Goods Branch (DGB).

Improved Road Safety

- Preparatory work for the introduction of the revised framework directive for the approval of motor vehicles and trailers (ECWVTA) has continued through the year. VOSA, DVLA and VCA are working together on the implementation project. VOSA is the lead agency for the project. The first mandatory approvals will be required from January 2009 for passenger vehicles, followed over the next 7 years, by new and existing types of trailers and lorries.

- VCA has been appointed by Traffic Management Division of DfT to act as their technical advisers and as the certification body for bus lane enforcement camera systems.

- VCA conducted a series of compliance checks on safety critical systems and components. The work programme was agreed with the Department for Transport and was successfully completed to schedule. As part of this work we tested two whole vehicles against current EC Directives/UNECE Regulations and completed a programme of testing on child restraints according to UNECE Regulation 44.

- VCA increased the level of certification in China by more than 100% in the first 9 months of 2006-2007 compared with the whole of 2005-2006.

- VCA invested in research activities in Virtual Approval technologies and electronics in partnership with DfT. VCA participated in research projects at the International Automotive Research Centre with Warwick Manufacturing Group (part of Warwick University), aimed at increasing the UK automotive innovative capability.

Improved Journey Reliability on the Road

- Supported DfT through our research activities in the development of emerging technologies for road user charging.

- Developed capability for virtual testing and conducted our first parallel virtual / physical correlation test in December 2006.

Better Regulation

- VCA has continued to invest in capability for the emerging technologies in vehicle engineering. Particular emphasis is currently placed on digital (virtual) testing, and new electronic devices.

- Commenced the development of our virtual testing capability and conducted our first parallel virtual / physical correlation test in December 2006.

Tackling Environmental Damage

- VCA supported DfT with the Renewable Transportation Fuels Obligation accreditation scheme, and the new organisation and certification process design.

- Supported the reduction in harmful gaseous emissions through the Type Approval schemes.

- Enforcement of European Directives for road vehicles on gaseous emissions, CO_2 and noise.

- Enforcement of Non Road Mobile Machinery (NRMM) for noise and gaseous emissions.

- The agreed programme of in-service emissions tests of 40 vehicle tests (passenger cars) commissioned by the DfT was completed.

- Successful launch into the environmental, waste and utilities sectors in line with the management systems strategy.

- Sales of the revised Point of Sale (POS) software increased during 2006-2007, with the benefit of the fuel consumption and emissions becoming more visible to consumers.

- The New Car Fuel Consumption Data website generated 36 million hits during 2006-2007 and has resulted in a number of new customers.

Improved Value for Money

- Significant gains in efficiency and effectiveness have already been realised (outlined below) as well as meeting our productive utilisation target.

- **Productivity - £110,000 realised**
    - £16,000 Legal staff cost reduction
    - £94,000 Improvements in NRMM & EOL Process Effectiveness

- **Procurement - £58,000 realised**
    - £22,000 Re tendering FCB printing to alternative printer
    - £21,000 Rent freeze VCA HQ
    - £5,000 OGC Buying solutions
    - £10,000 Others

- **Back Office - £324,000 realised**
    - £133,000 Smarter charging by more accurate billing – SharpOWL
    - £56,000 Finance post reduction
    - £48,000 Full roll out of SharpOWL
    - £38,000 Estates staff reduction
    - £23,000 MSC restructuring
    - £18,000 Reception post reduction
    - £8,000 USA Post reduction

Total in year £ 492,000 of which £227,000 represents effectiveness savings, the remainder £265,000 being cash releasing efficiency gains.

REVIEW OF AGENCY DEVELOPMENTS

Finance and ICT

- VCA improved the remote access facility for mobile staff who can now securely access VCA's HQ ICT network from any Internet enabled desktop PC or laptop from anywhere in the world. This allows travelling officers to access in real time to job details as well as to maintain the management information system (MIS).

- Implementation across VCA of the upgraded Job Register, this now allows remote access, considerably quicker response and query times, as well as being integrated into the VCA's MIS.

- Implementation of iFolder technology enables VCA's overseas offices to share working documents in real time without having to mail or transfer documents.

- Implementation of imaging technology to speed up the upgrade process for desktop operating system (Windows 2000 to Windows XP) reducing the time taken by 66%.

- ICT resilience and communications bandwidths have further been improved to all the VCA site facilities including overseas. This has enabled better usage of all systems and sharing of data, including SharpOWL, and other management information systems, benefits are already being realised and are included in our VFM savings.

Personnel Management

- The Agency's Personnel Management team has taken forward a number of new issues, driven by the Government's modernisation agenda, our own business needs and involvement with the DVO Group. Areas of particular note are:
  - Further round of the VOSA/VCA/TTS Graduate Engineering Scheme, and progression to permanent positions from the scheme;
  - Production of a range of Diversity Action Plans such as Disability and Gender;
  - Introducing new Performance appraisal arrangements, including an Individual Development Plan (IDP) for all staff;
  - Refreshing the Agency's staff suggestion scheme through the introduction of an e-log system to capture staff ideas;
  - Taking forward the issues arising out of the 2005-2006 staff survey, including the formation of focus groups and the compilation of an Action Plan; and
  - Progressing the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) for the staff involved in the packaging of Dangerous Goods.

- The Agency is committed to the DfT policy on equal opportunities. All Agency recruitment activity is undertaken on a fair and open basis, is subject to external checks and is in accordance with the "Civil Service Commissioner's Recruitment Code".

- Over the past year the Agency has recruited 9 new starters, of which 4 were Male and 5 Female, however the number of Civil Service Full Time Equivalents (FTE's) has remained at 111.

Staff Development

- The number of training and development (T&D) days and spend has remained on target with approximate expenditure per head of £1,000 and in particular:
  - Bullying and harassment workshops for all staff;
  - Continuation of diversity and management development courses;
  - Holding Induction, First Aid, Fire Safety and Vehicle Appreciation courses for new and established staff;
  - New Managers and Support Groups meeting regularly to exchange best practice and to encourage personal development;
  - A number of staff have achieved business-based qualifications during the year enhancing the professional image of the Agency and ensuring we continue to meet industry based standards and requirements; and
  - Introduction of a Learning and Development allowance (non-job related) for all staff.

Working Environment

- The health and safety of our employees remains a high priority and given the nature of some of the work undertaken, we continue to have a good record. Areas of particular note are:
  - A comprehensive review of the arrangements in place for regular (and infrequent) travellers;
  - Healthy lifestyle programme offered to staff and assisted access to a local gymnasium for HQ staff;
  - Refurbishment of our HQ office;
  - Formal and informal discussions take place with trade unions through the regular meetings of the Agency's Whitley Committee; and
  - The planned introduction of a "cycle to work" scheme in the near future.

Customer Service

- Our close regular consultation with the motor industry was continued through our Type Approval Liaison Committee (TALC) meetings with the Society of Motor Manufacturers and Traders (SMMT). We also attended similar liaison meetings hosted by DfT, the Vehicle Importers Homologation Group, and the SMMT's Joint Engineering Committee (with DfT and DTI).

- We continued the independent review of VCA's Type Approval work.

- Closer links have been forged with Technology and Transport Standards (TTS) and Cleaner Fuels and Vehicles (CFV) policy engineers. VCA staff pro-actively offer advice and support on significant issues. VCA attends the TTS Heads of Branches meetings.

Environmental Policy

- The Agency takes its environmental responsibility seriously and is accomplished via our environmentally friendly Greening and Sustainability Policies. This is based on DfT issued best practice guidelines. Areas to note include:
  - Increased usage of recycling to include paper, batteries, mobile phones, cartridges, furniture, plastic bottles and cans;
  - Regular monitoring and review of our overarching green policy statements and improvement programmes; and
  - Exceeding our targets for reducing energy, water and paper consumption.

Social/Community Issues

- The Agency works closely with the local community in areas such as:
  - Forging links with local inner-city schools by offering regular work experience placements to their students;
  - Attending local job fairs and Action Group meetings; and
  - Regular donations of excess office stationery/ materials to local schools.

Total Quality

- A significant development during 2006-2007 was the creation of a new Technical & Quality Support Branch. This Branch grew out of the recognition that our global expansion had to be supported by a more robust control of technical competence and internal quality, and by the timely provision of technical and policy advice to operational offices.

- Staff concerned with technical interpretations, technical training, type approval policy, conformity of production control, internal quality, and external accreditations, including the VCA Quality Manager, were brought together in a new Branch with a focus on internal customer service.

- The operational aspects of our MSC work, which are also audited internally by VCA, are overseen by the United Kingdom Accreditation Service (UKAS) and International Automotive Task Force (IATF).

Business Plan Key Performance Indicators

	No. of Targets	Achieved (unaudited)	Not Achieved (unaudited)
TYPE APPROVAL			
Turnaround of Type Approval Certificates	5	5	0
Median time taken to issue corrected type approval certificates.	1	1	0
% of appraisal reports on our technical performance from independent panel members deemed to have no critical defects.	1	1	0
Internal Quality	5	4	1
MANAGEMENT SYSTEM CERTIFICATION			
External Service and Quality	3	2	1
Internal Quality	3	2	1
OTHER TARGETS			
Sales invoice quality and collection	3	2	1
% of invoices on VCA paid within 30 days	1	1	0
Sickness days	1	0	1
TOTAL ALL TARGETS	23	18	5
PERCENTAGE OF TARGETS ACHIEVED			78%

The percentage of total targets achieved was 78%, compared with 76% in 2005-2006. Type Approval achieved 91% (100% 2005-2006); Management System Certification achieved 67% (50% 2005-2006) and Other Targets 60% (67% 2005-2006). The total number of targets rose from 21 in 2005-2006 to 23 this year.

- Most of our targets and indicators are designed to ensure we deliver the service customers and stakeholders need (as indicated and borne out by surveys and consultation). Almost all of the direct customer-facing targets were met. The results are shown in this report above under Total Quality

- In so far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

PAUL MARKWICK
Chief Executive and Accounting Officer
29 June 2007

REMUNERATION REPORT

CHIEF EXECUTIVE OFFICER - Remuneration and Performance

Mr Paul Markwick is VCA's sole Senior Civil Servant and is contracted on a fixed term until April 2010. The contract contains a fixed notice period of 3 months, which may be terminated within the period by mutual consent. If the department chooses to terminate employment prior to the end of the fixed period, other than by mutual consent or termination due to inefficiency misconduct or medical reasons, compensation may be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendation's, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

MANAGEMENT BOARD - Remuneration and Performance

All other management board members have standard Civil Service employment contracts that govern their remuneration levels and performance conditions. All are permanent full time employees with the exception of Mrs Pia Wilkes, who is on a fixed term contract until 5 December 2007

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration of Chief Executive and Management Board Members

	2006-2007							2005-2006
Name and title	**Salary**	**Real increase in pension and related lump sum at age 60**	**Total accrued pension at age 60 at 31 March 2007 and related lump sum**	**Cash Equivalent Transfer Value at 31 March 2006**	**Cash Equivalent Transfer Value at 31 March 2007**	**Real increase in Cash Equivalent Transfer Value**		Salary
	£000	**£000**	**£000**	**£000**	**£000**	**£000**		£000
Mr P Markwick	105-110	0-2.5	5.1	53	75	18		100-105
Mr R Brayfield	60-65	0-2.5	49.9	239	261	12		60-65
Mr J Bragg	50-55	-	-	-	-	-		40-45
Mr A J Buckle	50-55	2.5-5	66.8	246	269	18		45-50
Mr A Grimm	50-55	0-2.5	75.6	341	361	8		50-55
Mr M Mulvaney	50-55	7.5-10	59.3	215	257	36		40-45
Mr B Perrett	50-55	5-7.5	58.3	233	266	20		45-50
Mr A W Stenning	50-55	0-2.5	76.3	316	331	7		50-55
Mrs P Wilkes	50-55	0-2.5	1.8	7	18	9		30-35
Mr C Border	40-45	5-7.5	71.8	346	389	29		35-40

Additionally there was a total of £1,972 employer contribution within the year to the partnership pension account
of Mr J Bragg who is the only Board Member to hold a Partnership Pension account.

The above table is subject to audit.

Salary

The above includes all the members of the Management Board as at 31 March 2007. The total salary of the Chief Executive includes the payment of a bonus relating to the achievement of objectives in respect of the 2005-2006 Financial Year. The total aggregate of all emoluments of the Board was £579,804 representing 10 members (£528,532 2005-2006 representing 10 members). Salaries include gross salaries, bonus payments, but exclude employer pension contributions. No additional fees were received in their capacity as board members nor were any benefits in kind received.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Price index. On death, pensions are payable to the surviving spouse at the rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice-pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhancement as for widow(er) pensions. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder agreement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in Classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

PAUL MARKWICK
Chief Executive and Accounting Officer
29June 2007

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Statement of Accounting Officer's Responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury have directed the Vehicle Certification Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction in the Dear Accounting Officer letter DAO(GEN)12/06.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs, of the Agency, the income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgments and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and

- prepare the accounts on a going concern basis.

The Director General of the DVO Group has appointed the Chief Executive of the Vehicle Certification Agency as the Accounting Officer for the Agency. The DVO Group became part of the Safety, Service, Delivery and Logistics Group, (SSDL) as from 1 April 2007.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the DVO Governance Handbook and in the Accounting Officers' Memorandum, issued by the HM Treasury and published in "Government Accounting" (The Stationery Office).

Statement on Internal Control

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of VCA's targets, aims and objectives, whilst safeguarding the public funds and Agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

- VCA operates in accordance with the DVO Governance Handbook authorised by the Secretary of State for Transport and this defines the Agency's operating and financial accountability and responsibility. The DVO Group will become part of the Safety, Service, Delivery and Logistics Group, (SSDL) from April 1 2007.
- As from 1 April 2006 the Advisory Board was replaced by the Executive Management Board. The Executive Management Board reviewed the Agency's strategic planning framework including the business plan and the progress contained therein towards the achievement of key targets and other significant objectives for 2006-2007. The members of the board during 2006-2007 were the DVO Director General, DVO S&R Director, Deputy Divisional Manager Transport Technology & Standards, Non Executive Directors and the VCA Management Board. The Executive Management Board met on three occasions in 2006-2007.
- VCA participates fully in the DVO's co-ordinated business planning, performance delivery and risk reporting systems.

The purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve targets, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of VCA targets, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in VCA for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to Handle Risk

- The Agency's approach to risk management was established in its risk management policy.
- VCA's risk management procedure, which is reviewed and updated annually, sets out the way in which the risk management policy is to be implemented within VCA.
- VCA's risk management procedure provides extensive guidance to staff on the definitions, criteria and methods available for risk assessment, and is made available to all personnel via VCA's Quality Control System (Q-Pulse). Risk assessment is now part of the personnel annual reporting system.

The Risk and Control Framework

- The key elements of the Agency's risk management strategy are set out in its risk management policy.
- VCA established its corporate risk register in July 2001, based on guidance published by HM Treasury. Since then the register has been managed dynamically, with a number of new risks being introduced whilst other risks have been removed or merged, reflecting the changing nature of the business environment in which the Agency works. Changes to the risk register may be suggested by any of VCA's staff, and are considered by the Management Board before being accepted on to the register. Monthly Team Briefings to staff include business risk issues
- Overseas offices maintain their own risk registers that feed into the corporate risk register.
- The risk management system is reviewed annually in-house as still being fit for purpose, and appropriate revisions are made as approved by the Management Board. The system is also audited on an annual basis by the Audit & Risk Assurance Division of DfT and it is subject to comparison with other agencies in DVO and DfT.
- VCA supplies a monthly financial report to DfT and DVO, setting out expenditure to date and forecast for the full financial year against its annual resource allocations, and regularly attends meetings with senior DfT and DVO Finance personnel.
- At the monthly Management Board meetings, risk management is a standing agenda item, with full reviews scheduled bi-annually, including the maintenance of an Agency wide risk register and sub registers for the overseas operations.
- The Agency has a low to medium risk appetite at the corporate level, however, new projects or initiatives are assessed individually by reference to potential business impact, availability of resources and the value for money of stakeholder benefits.
- VCA targets, aims and objectives are fed into VCA's corporate risk register and risk management system.
- Where significant procurement is involved, the Office of Government Commerce (OGC) risk model is applied, and OGC gateway reviews are undertaken as required.
- All major projects are subject to VCA's approved project management methodology, which is based upon PRINCE2, including the use of project risk registers.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the DfT Audit and Risk Assurance (ARA) branch who are our internal auditors, the executive managers within VCA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

- **Management Board**

Risk management for corporate governance is a standing agenda item at all board meetings. All decision and information papers for the Board include explicit consideration of risk issues. All members of the Management Board receive a copy of Audit Committee minutes.

- **Audit Committee**

The Audit Committee is chaired by a non-executive member of VCA's Executive Management Board and comprises the Chief Executive Officer from the Agency and one other non-executive (varying from the Audit Committee Handbook as the Agency currently has only two non-executive members). Representatives from internal and external audit are invited to attend Audit Committee meetings. The terms of reference were reviewed in 2006-2007 and brought broadly in line with those recommended in HM Treasury's Audit Committee Handbook. Internal control, risk management, and audit plans and reports are standing agenda items at the three meetings that take place each year. It was also agreed that the Audit Committee should continue to meet only three times per year as this was considered proportionate for the Agency, although the Audit Committee Handbook states that four Audit Committee meetings are recommended per year.

- **Internal Audit**

ARA operates to the standards defined in the Government Internal Audit Standards. The work of ARA is informed by an analysis of the risks to which the Agency is exposed, and the annual internal audit programme is based on this analysis. At least annually, the DfT Audit and Risk Assurance manager responsible for VCA provides a report on internal audit activity in the Agency. The analysis of risk and the internal audit plans are endorsed by the Agency's Audit Committee and approved by me. The annual report includes the ARA Audit Manager's independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. The 2006-2007 opinion stated 'I can provide substantial assurance that the Vehicle Certification Agency has established risk management, control and governance arrangements that are operating in a generally effective manner. Some minor weaknesses were identified during the year, as were opportunities to improve working practices.

This overall opinion is supported by the following key considerations:

- formal risk management policies and processes have been defined and are proving effective at the corporate level where they are discussed and reviewed regularly by the Board. Improvements could be made in the consistency of risk recording, the scores allocated to risks and the processes around the identification and monitoring of mitigating actions;
- the internal control environment is generally operating effectively and consistently with some minor exceptions where a need was identified for an enhanced level of control to reduce the Agency's exposure to particular risks and improve the overall control environment and some controls over pre-funding accounts and US accounting information which for part of the year were not effective;
- governance arrangements in place are relevant and appropriate to the needs of the organisation. They were found to be working efficiently and effectively with some minor weakness. They were strengthened in June 2006 when a new non executive joined the Board and the Audit Committee.

Other explicit review / assurance mechanisms

An annual programme of external audits is carried out by two Accreditation Bodies (United Kingdom Accreditation Service (UKAS) and Society of Motor Manufacturers and Traders (SMMT)) on the Agency's MSC work.

Audits of all main operational activities, covering the processes and procedures, are carried out by VCA Internal Audit to an agreed programme. This is supplemented by a programme of audits on Type Approval work conducted by a panel of independent experts.

PAUL MARKWICK
Chief Executive and Accounting Officer
29 June 2007

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Vehicle Certification Agency for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Agency, the Chief Executive and Auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary and the Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating surplus, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- the information given within the Annual Report, which comprises the Management Commentary and the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
3 July 2007

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2006-2007 £000	2005-2006 £000
TURNOVER	3	10,147	8,821
Cost of sales		(7,674)	(6,701)
Gross surplus	3	2,473	2,120
Administrative expenses - Non Pay	4	(1,490)	(1,091)
Administrative expenses - Pay	4	(764)	(914)
Administrative expenses - Early retirement costs	5	1	(35)
OPERATING SURPLUS		220	80
Interest receivable		6	3
Notional cost of capital	7	(133)	(145)
Overseas Witholding Tax paid		(2)	(2)
SURPLUS (DEFICIT) FOR THE YEAR	13	91	(64)

Turnover and operating surplus/(deficit) are derived entirely from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2007

	2006-2007 £000	2005-2006 £000
Surplus/(deficit) for the year	91	(64)
Surplus on revaluation of assets	1	6
TOTAL RECOGNISED GAINS/(LOSSES) FOR THE YEAR	92	(58)

The notes on pages x to xvii form an integral part of these financial statements.

BALANCE SHEET AS AT 31 MARCH 2007

	Notes	2007 £000	2007 £000	2006 £000
FIXED ASSETS				
Tangible assets	8		823	812
CURRENT ASSETS				
Work-in-progress		170		197
Debtors	9	3,399		3,217
Cash at bank and in hand	11	1,128		763
		4,697		4,177
CREDITORS				
Amounts falling due within one year	10	(1,162)		(920)
NET CURRENT ASSETS			3,535	3,257
TOTAL ASSETS LESS CURRENT LIABILITIES			4,358	4,069
Provisions for liabilities and charges	12		(76)	(106)
			4,282	3,963
TAXPAYERS' EQUITY				
General fund	13		4,233	3,894
Revaluation reserve	15		20	19
Government grant reserve	16		29	50
			4,282	3,963

The notes on pages x to xvii form an integral part of these financial statements.

PAUL MARKWICK
Chief Executive and Accounting Officer
29 June 2007

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2006-2007 £000	2005-2006 £000
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	i	**583**	(27)
RETURNS ON INVESTMENTS & SERVICING OF FINANCE			
Interest Received		**6**	3
OVERSEAS WITHOLDING TAX PAID		**(2)**	(2)
CAPITAL EXPENDITURE			
Payments to acquire fixed assets		**(222)**	(201)
		365	(227)
FINANCING		**-**	-
INCREASE/(DECREASE) IN CASH		**365**	(227)

	Notes	2006-2007 £000	2005-2006 £000
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	ii		
Increase/(decrease) in cash in the period		**365**	(227)
Net funds at 1 April		**763**	990
NET FUNDS AT 31 MARCH		**1,128**	763

The notes on pages x to xvii form an integral part of these financial statements.

NOTES TO THE CASH FLOW STATEMENT

i. RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Notes	2006-2007 £000	2005-2006 £000
Operating surplus		220	80
Depreciation charges	8	224	198
Depreciation charges transferred to Government Grant Reserve	16	(21)	(27)
Loss on disposal of fixed assets	4	2	7
Impairment of fixed assets (net)		(14)	(14)
Notional charges	14	115	91
Decrease/(increase) in work in progress		27	(24)
Increase in debtors		(182)	(668)
Increase in creditors		242	351
Decrease in provisions and liabilities	12	(30)	(21)
NET CASH INFLOW /(OUTFLOW) FROM OPERATING ACTIVITIES		583	(27)

ii. ANALYSIS OF CHANGES IN NET FUNDS

	Notes	At 1 April 2006 £000	Cash Flows £000	At 31 March 2007 £000
Cash at bank and in hand	11	554	103	657
Lloyds account balance	11	42	(33)	9
OPG account balance	11	167	295	462
TOTAL		763	365	1,128

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

These financial statements have been prepared in accordance with the 2006-2007 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The accounts are prepared under the historical cost convention modified to include the revaluation of tangible fixed assets.

b. Income

The Agency is mainly funded from sales of services provided to the private sector and income is shown net of VAT where applicable. Income from each job is recognised once a chargeable stage of a job is completed and until such stages are reached, costs are regarded as work-in-progress. When invoices are issued in advance, these are treated as deferred income until the chargeable stage of the job is completed. Other revenue is received from the DfT for regulatory and compliance work.

c. Notional Charges

i. Notional Cost of Capital

Notional cost of capital is calculated on a monthly basis for all assets and current liabilities except for bank balances, which are calculated on a daily basis excluding cash balances with the Office of HM Paymaster General (OPG) where the charge is nil. The net interest calculated is charged to the income and expenditure account.

ii. Audit Fee

The Vehicle Certification Agency is not charged an audit fee by the National Audit Office. A notional charge is made in respect of the audit fee and is charged to the income and expenditure account based on the cost of services provided.

iii. Intra-Departmental Charges

The Agency includes in its accounts a notional charge for services provided by the DfT.

d. Fixed Assets and Depreciation

Fixed assets are revalued annually where material using appropriate indices published by the Office for National Statistics and depreciation on such revalued amounts is provided on a straight line basis over the estimated useful lives of the assets. Land and buildings are subject to professional valuation at least every five years in accordance with RICS guidance. Depreciation is charged in the month of acquisition and not in the month of disposal. Estimated useful lives are:

Machinery and test equipment	10 years
Furniture and fittings	10 years
Computer, office and microfiche equipment	***3-5 years***
Land and buildings	Buildings are depreciated over the lower of useful economic life or land lease period; and land is not depreciated. In the years between professional valuations the VCA management board review the valuation to ensure there has not been a material change.
Motor Vehicles	4 years

e. Stocks and Work in Progress

Work in progress represents costs incurred to the balance sheet date in respect of jobs on which a chargeable stage has not yet been reached. Expenditure on stationery, tools and spares is written off as incurred, as the amounts involved are not considered material.

f. **Foreign Exchange**

Monetary assets and liabilities in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Transactions in foreign currencies during the year are recorded in sterling at the average rate of exchange ruling in the period of the transaction. The resulting exchange differences are taken to the income and expenditure account.

g. **Leases**

All costs of operating leases are charged to the income and expenditure account as incurred.

h. **Pension Costs**

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described at Note 6. The defined benefit elements of the schemes are unfunded. The Classic Scheme is non-contributory except in respect of dependent's benefits, under the Premium Scheme a contribution is made for which enhanced benefits are derived. Both the Classic and Premium schemes attract the same employers contributions as a percentage of pensionable pay. VCA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, VCA recognises the contributions payable for the year.

i. **Financial instruments**

In preparing the disclosures in Note 20 to the financial statements concerning financial instruments, the Agency has taken advantage of the exemption available in Financial Reporting Standard 13 "Derivative and Other Financial Instruments: Disclosures", not to include details in respect of either short term debtors or creditors.

j. **Early Retirement Costs**

Compensation payments are provided for in the income and expenditure account. Obligations relating to these former members of staff aged 50 or over are provided for until their normal date of retirement.

2. FINANCIAL TARGET

The Agency achieved its key financial target in year as set by the Secretary of State, to make a surplus on a full cost basis in 2006-2007.

3. TURNOVER

Turnover and Gross Surplus per Product Line

	TURNOVER		**GROSS SURPLUS/(DEFICIT)**		**FULL COST**	
	2006-2007	2005-2006	**2006-2007**	2005-2006	**2006-2007**	2005-2006
	£000	£000	**£000**	£000	**£000**	£000
Product Certification	**5,034**	4,587	1,315	1,189	4,623	4,294
Management System Certification	**1,588**	1,531	30	(96)	1,888	1,847
DfT/DTI/DVO work	**2,774**	1,954	905	696	2,693	1,915
Other activities	**751**	749	223	331	723	650
Total	**10,147**	8,821	2,473	2,120	9,927	8,706

The Agency is required to comply with the Treasury's Fees and Charges Guide and disclose a segmental analysis of its activities where fees and charges are made. VCA seeks to recover the full cost of the services it provides. Other activities include the issue of sub-MACs, duplicate sub-MACs, conformity of production assessments/inspections and commission notices. Early Retirement costs (Note 5) are not included within the full cost shown above. This analysis is not required to satisfy Statement of Standard Accounting Practice 25 "Segmental Analysis".

4. **ADMINISTRATIVE EXPENSES**

	2006-2007 £000	2005-2006 £000
Depreciation charges (net)	190	171
Loss on disposal of fixed assets	2	7
Impairment of fixed assets (net)	(14)	(14)
Travel and subsistence	106	124
Legal and consultancy	53	33
Audit fee (Note 14)	36	35
Exchange (gain)/loss on translation	142	(49)
Realised exchange gain	(14)	(13)
Head Office rent and rates	249	245
DfT on-costs (Note 14)	79	56
Other administrative expenses	661	496
Total non pay administration expenses	1,490	1,091
Pay costs (administration)	764	914
Total	2,254	2,005

Other administrative expenses include postage, rents payable under operating leases (Note 18), insurance, rates, fuel, telephone and IT running costs. Pay costs (administration) includes costs relating to group bonus, general training and development for all staff, as well as general management and administration. Pay costs, travel and subsistence, legal and consultancy and other administrative expenses are shown net of transfers to cost of sales and work in progress. Depreciation is net of movements to the Government Grant Reserve of £21,355 (£26,751 2005-2006) including permanent diminution on revaluation (Note 16). The external auditors have not received any remuneration in respect of non-audit services during the year.

5. **ADMINISTRATIVE EXPENSES – EARLY RETIREMENT COSTS**

Adjustments to the provision relating to 2005-2006 early retirement decisions have been taken to this years' income and expenditure account. The total adjustment which was written back was £1,442 all of which relates to future years pension payments.

6. EMPLOYEES AND STAFF COSTS

a. The average number of full-time equivalent employees during the year was:

	2006-2007	2005-2006
Senior management	**10**	10
Professional and technical	**47**	44
Technical support	**38**	41
Administrative support	**16**	16
Agency, Temporary and Contract Staff		
Professional and technical	**17**	16
Technical support	**6**	7
Administrative support	**3**	2
Total	**137**	136

Technical support staff are involved in fee earning activities. Within the total for agency, temporary and contract staff there are 21 full-time equivalent locally engaged overseas staff (23 in 2005-2006).

b. Staff costs excluding early retirement costs amounted to:

	2006-2007 £000	2005-2006 £000
Wages and salaries	**3,746**	3,579
Social security costs	**299**	275
Other pension costs (Note c)	**654**	590
Agency, Temporary and Contract Staff	**1,285**	1,112
Total	**5,984**	5,556

c. **PENSION COMMITMENTS**

The PCSPS is an unfunded multi-employer defined benefit scheme but VCA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-2007, normal employer's contributions of £652,452 were payable to the PCSPS (£590,373 2005-2006) at one of four rates in the range 17.1% to 25.5%. (16.2% to 24.6% 2005-2006) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08 the salary bands will be revised, although the rates remain unchanged. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2006-2007 one employee was a member of this scheme and payments of £1,972 were made.

7. NOTIONAL COST OF CAPITAL

The charge is calculated at the Government's standard rate of 3.5% (3.5% 2005-2006) in real terms on all assets less liabilities, excluding cash balances with the OPG where the charge is nil.

8. TANGIBLE FIXED ASSETS

	Test Equipment	Computers and Office Machinery	Furniture and Fittings	Motor Vehicles	Long Leasehold Land and Buildings	Total
	£000	£000	£000	£000	£000	£000
COST/VALUATION						
At 1 April 2006	**191**	**998**	**153**	**14**	**155**	**1,511**
Additions	42	159	-	15	6	222
Revaluations	4	(29)	-	-	-	(25)
Disposals	(11)	(11)	-	-	-	(22)
At 31 March 2007	**226**	**1,117**	**153**	**29**	**161**	**1,686**
DEPRECIATION						
At 1 April 2006	**87**	**534**	**63**	**3**	**12**	**699**
Charge for the year	14	185	14	5	6	224
Revaluations	2	(41)	1	-	(2)	(40)
Released on disposals	(10)	(10)	-	-	-	(20)
At 31 March 2007	**93**	**668**	**78**	**8**	**16**	**863**
NET BOOK VALUE						
At 31 March 2007	**133**	**449**	**75**	**21**	**145**	**823**
At 31 March 2006	**104**	**464**	**90**	**11**	**143**	**812**

Indexation is to the latest reliable indices in accordance with the requirements of the FReM. The indices used are obtained from the Office of National Statistics. Where it is considered that there has been permanent impairment to assets at the end of the financial year they have been written off to the income and expenditure account. In 2006-2007 the total amount taken to the income and expenditure account as impairment in value was £17,900 (£7,613 2005-2006). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the income and expenditure account.

Included in the above under Test Equipment are total payments of £25,997 made in year in respect of asset work-in-progress for Tee Slotted Floor Plate for test work.

Movements in respect of depreciation and revaluation of £21,355 (£26,751 2005-2006) have been taken to the Government Grant Reserve (Note 16).

Non-dwelling long leasehold land and buildings are carried at professional valuation on the basis of depreciated replacement cost. The valuation was carried out as at 31 March 2003 by Insignia Richard Ellis, Chartered Surveyors.

9. DEBTORS

a. Analysis by type

	At 31 March 2007	At 31 March 2006
	£000	£000
Trade debtors	**2,851**	2,014
Other debtors	**75**	58
Prepayments	**124**	225
Accrued income	**349**	920
Total	**3,399**	3,217

The Agency has no debtors due after more than one year, except for salary advances of which £1,222 (£2,400 2005-2006) is due after one year.

b. Intra Government Balances

	At 31 March 2007	At 31 March 2006
	£000	£000
Balances with other central government bodies	**1,295**	971
Balances with bodies external to government	**2,104**	2,246
Total	**3,399**	3,217

10. CREDITORS

a. Analysis by type

	At 31 March 2007 £000	At 31 March 2006 £000
Amounts falling due within one year		
Trade creditors	31	72
Other creditors	419	563
Accruals	364	254
Deferred income	348	31
Total amounts falling due within one year	1,162	920
Included in other creditors are: Deposits from manufacturers	246	347

The accruals balance at 31 March 2007 includes £94,958 (£90,428, 31 March 2006) in respect of VCA's March 2007 payroll cost payable to DfT. There are no creditor balances falling due after one year.

b. Intra Government Balances

	At 31 March 2007 £000	At 31 March 2006 £000
Balances within other central government bodies	416	90
Balances with local authorities	-	56
Total	416	146
Balances with bodies external to government	746	774
Total	1,162	920

11. CASH AT BANK AND IN HAND

	At 31 March 2007 £000	At 31 March 2006 £000
OPG balance	462	167
Lloyds current account	9	42
Cash in hand and at other banks	657	554
Total	1,128	763

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement (Note 5) £000
BALANCE AT 1 APRIL 2006	(106)
Written back in the year	(1)
Provisions utilised in the year	31
BALANCE AT 31 MARCH 2007	(76)

£31,940 (£54,907 2005-2006) of the Early Retirement Provision is estimated to be due after more than one year.

13. GENERAL FUND

	2006-2007 £000	2005-2006 £000
BALANCE AT 1 APRIL	3,894	3,722
Surplus/ (deficit) for the year	91	(64)
Notional cost of capital	133	145
Notional charges (Note 14)	115	91
BALANCE AT 31 MARCH	4,233	3,894

14. NOTIONAL CHARGES

	2006-2007 £000	2005-2006 £000
DfT on-costs	79	56
Audit fee	36	35
Total	115	91

15. REVALUATION RESERVE

	2006-2007 £000	2005-2006 £000
BALANCE AT 1 APRIL	19	13
Surplus on revaluation of fixed assets	4	13
Backlog depreciation on revalued assets	(3)	(7)
BALANCE AT 31 MARCH	20	19

16. GOVERNMENT GRANT RESERVE

	2006-2007 £000	2005-2006 £000
BALANCE AT 1 APRIL	50	77
Released to Income and Expenditure	(26)	(29)
Revaluation depreciation	5	2
BALANCE AT 31 MARCH	29	50

Depreciation charges and revaluation are credited/debited to the reserve as and when they occur.

17. CAPITAL COMMITMENTS

The Agency has capital commitments of £31,696 as at 31 March 2007 (£4,295 at 31 March 2006).

18. **COMMITMENTS UNDER LEASES**

The Agency has annual commitments under operating leases as follows:

	2006-2007 £000	2005-2006 £000
EXPIRING:		
Land and buildings - within one year	**13**	17
Land and buildings - in second to fifth years inclusive	**29**	30
Land and buildings - over five years	**224**	195
Total	**266**	242

Total rentals for 2006-2007 of £266,093 (£240,561 2005-2006) were charged to the income and expenditure account.

19. **CONTINGENT LIABILITIES**

There were no contingent liabilities as at 31 March 2007.

20. FINANCIAL INSTRUMENTS

The Agency's financial instruments comprise cash and funding from the OPG account (as shown in Note 11), together with various items such as trade debtors and trade creditors that arise directly from operations. All financial instruments are short term and arise purely from the Agency's day-to-day activities. The book values equate to the fair values.

The Agency is not exposed to liquidity or interest rate risk, however, there is exposure to foreign currency risk due to commercial activities outside the UK. The management board is only able to manage this risk by holding foreign currency bank accounts.

21. **RELATED PARTY TRANSACTIONS**

VCA is an executive agency of the DfT.

The DfT, of which the DVO Group is part, is regarded as a related party. During the year, VCA has had a number of material transactions with the Department. Income in 2006-2007 from the Department was £2,419,807 (£1,243,089 2005-2006). In addition VCA received sales income of £354,200 from DTI during 2006-2007 (£323,412 2005-2006).

During the year, none of the Board Members, members of the key management staff or other related parties has undertaken any material transactions with VCA.

Balances of the amounts due and owed at the balance sheet date are shown in Notes 9 and 10.

22. **POST BALANCE SHEET EVENTS**

The accounts were 'authorised for Issue (released to the Secretary of State to lay before Parliament)' on 5 July 2007 by Paul Markwick as Chief Executive and Accounting Officer.

From 2 April 2007 VCA took responsibility for the administration of the Dangerous Goods Packaging Certification Scheme from the Packing Industry Research Association (PIRA).

VCA will from 1 July 2007 (to 31 December 2009) be enforcing the Waste Electrical and Electronic Equipment Directive' (WEEE Directive) obligations on distributors and retailers. This work will be on behalf of DTi.

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