VEHICLE CERTIFICATION AGENCY

An executive agency of the Department for Transport

Annual Report and Accounts 2009 - 2010

HC 280

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VCA ANNUAL REPORT AND ACCOUNTS 2009 – 2010

VCA VISION

Delivering a Safe Environment

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CHIEF EXECUTIVE'S FOREWORD

Welcome to the Annual Report for the Vehicle Certification Agency (VCA) for 2009-2010. VCA is an Executive Agency of the Department for Transport (DfT), and a member of its Motorist and Freight Services Group. The Agency is the UK Type Approval Authority for new vehicles, systems and components, and also delivers quality and environmental certification and a range of enforcement services. Our aim is to enable manufacturers and distributors to supply safe and environmentally compliant products to the UK market place. We do this by training our staff to be highly competent technically, and customer focussed. Many of our services compete with European public sector and international private sector providers.

I am delighted to report that VCA has met all its Secretary of State targets for the fifth year running, and exceeded our financial plan on revenues and value for money. VCA has been operating in a difficult economic climate and during 2009-2010, there was a significant downturn for the automotive industry globally, however, the Agency exceeded the budget and forecast, recording total revenues of £14m, and a net surplus of £865k, making this another record year for performance.

During the year, all of our operations grew, our core Type Approval activities recording the strongest growth of 5.5%. Our MSC (Quality and Environmental) business, despite the slowdown of operations in many factories, grew by 5%.

I am extremely pleased to report that both customer and staff satisfaction in the Agency have continued to improve this year. The Civil Service wide staff survey, undertaken in October 2009 showed the Agency to have an Engagement score of 67%, this being the highest in the DfT family, and in the top sector across the Civil Service. These indexes highlight an Agency that is performing very well, delighting customers and staff. Key performance indicators like headcount utilisation and earnings per head have improved, so we have been able to hold down our fees, with only one increase in the past 6 years.

Regionally, China and Asia Pacific continued to record strong growth in Type Approval activities and, despite challenging local economic issues in the North America market, our US operation recorded a strong year, with growth in the alternative fuels sector, which VCA, as part of the Department for Transport, is pleased to support, improving the sustainability performance of automobiles. Our new operations in Italy and Australia have both started strongly, and we will be further reinforcing resources in these areas to meet the local demand.

The enforcement activities we deliver for DfT and BIS have also expanded this year, winning a contract with DEFRA for the first time, where we are responsible for the Waste Batteries and Accumulators regulations. We have established a combined operation with the WEEE enforcement for BIS, saving both departments considerable cost, delivering a highly efficient service, with a rapid start up, that has been well received by the industry. Our enforcement activities were reviewed by the "Hampton" Team from BIS, who were very complimentary about the way VCA works with Industry and Retailers to improve compliance, while reducing the regulatory burden.

The Agency has continued to invest substantially in our future, with training, skills and infrastructure. Investments in ICT resilience and security has allowed the Agency to meet the growing Cabinet Office and DfT standards for data assurance and security, and I am pleased to report that there were no breaches of “Protect Personal” data.

In summary, the Agency has delivered all of our commitments to the Secretary of State for Transport, and the DfT, running ahead of the 10 year plan launched in 2005, and is in good shape to continue to perform strongly.

Paul Markwick
Chief Executive

INTRODUCTION

- The Vehicle Certification Agency (VCA) is an Executive Agency of the Department for Transport (DfT) and an integral part of the Motoring and Freight Services (MFS) Group.

- VCA supports the MFS Group with the delivery of its “2011 end states”. These end states cover a range of the strategic outcomes which are the Group’s priorities between now and 2011. These are:
    - Transforming customer service.
    - Improved road safety.
    - Better transport networks.
    - Reduced impact on climate change and the environment.
    - Contributing to wider Government objectives.
    - Improved efficiency and capability.

  The VCA Secretary of State targets for 2009-2010 were framed around this MFS strategic agenda and represented the key priorities for the Agency for the year.

- As the UK Type Approval Authority for new on and off-road vehicles, systems and components, VCA is responsible for approving that products have been designed and constructed to meet internationally agreed standards of safety and environmental protection. As a consequence of this VCA provides data to the public as well as other MFS agencies.

- VCA is also the administrator for the approval of packages for the carriage of dangerous goods. The transport of dangerous goods is governed by a United Nations and European regulatory framework, determined, in the first instance, by the United Nations Economic and Social Committee. The regulatory framework determines that all dangerous goods are transported in packages tested and certified as being suitable for transport to protect the safety of individuals, the public, society and the environment, further supporting the practical contribution VCA makes in these important areas.

- VCA issues Vehicle Special Orders on behalf of DfT Transport Technology and Standards (TTS) Division to permit vehicles to use public roads that are unable to meet vehicle regulations because of their specialised design.

- VCA also operates as part of DfT, on behalf of the Department for Business Innovation and Skills (BIS) and the Department of Environment Food and Rural Affairs (DEFRA) as the nominated enforcement body for a number of Statutory Instruments arising from European directives such as the obligations under the European emissions standards, Non-Road Mobile Machinery (Emission of Gaseous and Particulate Pollutants) Regulations (NRMM), Replacement Pollution Control Devices Regulations, the Noise Emission in the Environment by Equipment for use Outdoors Regulations, the Waste Electrical and Electronic Equipment (WEEE) Regulations and the Waste Batteries and Accumulators Regulations.

- VCA takes its policy lead from DfT centre and the MFS Group, in particular Road and Vehicles Safety Standards (RVSS), Dangerous Goods Division (DGD) and Cleaner Fuels and Vehicles (CFV), both part of the International and Environmental group. VCA works closely with colleagues in policy departments, bringing real time industry and technical knowledge.

- VCA supports DfT Traffic Management Division (TM) in providing a certification service to local authorities who wish to implement bus lane and parking enforcement camera systems.

- In addition to statutory work, VCA provides a range of Management System Certification (MSC) services to the automotive industry supporting the ongoing compliance to the Type Approval and Conformity of Production requirements and regulations. These allow the automotive industry to demonstrate that they have the systems in place, not only to ensure the quality of their products, but also to minimise the impact on the environment from the manufacturing and design processes.

- VCA provides a practical contribution to the achievement of DfT objectives of reducing those on the road killed and seriously injured (KSI's), and reducing the damaging environmental effects arising from transport through Type Approval compliance.

- The VCA published database of CO_2 emissions from passenger cars underpins the graduated Vehicle Excise Duty (VED) and Company Car tax schemes, and the "Act on CO2" campaign.

- VCA chairs the Vehicle Technology Forum on behalf of MFS, working with DfT policy leads, other DfT agencies and the Chief Scientific Advisor's Unit. This group shares knowledge, understanding and experience of emerging Vehicle Technologies for best effect and value.

- VCA provides a UK base for the global automotive industry to gain access to the European and other legislative markets as well as supporting UK industry in meeting the requirements for export to these markets.

STRATEGIC OUTCOMES
(As set out in VCA's 2009-2010 Business Plan)

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

The VCA strategic outcomes are described as: -

Transforming Customer Service

- 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 including the use of DirectGov and Business Link where appropriate.
- By working with other parts of the MFS group and VCA's worldwide partners to help ensure that services are delivered in a seamless, integrated and innovative fashion.
- By developing knowledge of developing science and technology issues relevant to VCA work and establish a mechanism to make information available to VCA, other agencies, and DfT.
- By continuing to develop VCA's understanding of and readiness for, the use of computer simulation in place of physical type approval testing, in parallel with the development of EC legislation. Continuing to deliver the forward plan developed from the VCA/TTS (Transport Technology and Standards Division) project completed during 2007-08. Support to TTS in the development of UK policy on this subject.
- By operating in real time when and where customers require.
- By improving access for automotive and component manufacturers to VCA products and services through its global presence and updating available e-channels on a regular basis to make available the latest information in a customer friendly manner.
- By developing and introducing a compliance management system (CMS) that helps to minimise the regulatory impact, and lead to better regulation for industry.
- By providing high quality and consistent Type Approval interpretations from all VCA offices and our clients.
- Supporting the DfT implementation project for the Recast Framework Directive (RFD) for European Community Whole Vehicle Type Approval (ECWVTA). Developing efficient processes and systems to assist UK manufacturers to obtain approval and delivering Conformity of Production (CoP) in a cost-effective manner.
- HM Treasury and Cabinet Office have published a Service Transformation Agreement (STA) which underpins the CSR07 (Comprehensive Spending Review 2007). The Agency will contribute to the department's delivery of these measures and support the Department's Service Transformation vision of "A Department that designs all of its services around the needs of its customers and business, providing modern and efficient services, whilst ensuring it has the capability to deliver."

- By delivering our and DfT's customer promise:-
  - We will provide a full response to enquiries quickly.
  - We will provide a full response to complaints quickly.
  - We will respond to telephone calls promptly and endeavour to resolve all enquiries at the first call.
  - We will use reliable and accurate methods to measure customer satisfaction on a regular basis.
  - We provide our customers with information that is clear, accurate and complete. If we do not have all the information required, we will advise customers when they will receive the information they requested.
  - Our staff are polite and friendly to customers at all times and understand our customer needs.
  - We make information about the full range of services we provide available to our customers and potential customers, including how and when people can contact us, how our services are run and who is in charge.
  - We have policies and procedures that support the right of all customers to expect excellent levels of service.

Improved Road Safety

- By ensuring through vehicle Type Approval schemes, support and information provided to manufacturers, that new vehicles, systems and components are designed and manufactured to the appropriate national, European, and international road safety standards.

- By working with DfT and BIS policy colleagues, so that VCA's operational experience helps their formulation of future standards and schemes plus developing VCA capabilities and expertise.

- By exploring with DfT policy colleagues the potential safety benefits of emerging automotive technologies.

- By testing safety critical vehicle systems and components available in the UK marketplace.

- By testing the safety of adapted vehicles for personal use.

- By ensuring through the United Nations (UN) package certification scheme that dangerous goods are transported safely, and to prevent harmful exposure to the environment.

- By supporting DfT on developing interactive channels for the supply of information on the carriage of dangerous goods, including operating a telephone helpline.

Better Transport Networks

- By ensuring through vehicle Type Approval schemes, support and information provided to manufacturers, that new vehicles, systems and components are designed and consistently manufactured to appropriate safety standards, assisting in the reduction of and severity of accidents, improving the quality and reliability of products, thus not only reducing KSI's but also congestion.

- By supporting DfT TM Division in the certification of bus lane and parking enforcement camera systems.

- By supporting DfT on the development of emerging technologies.

Reduced Impact on Climate Change and the Environment

- By enforcing European Directives for road vehicles on gaseous emissions and noise.
- By conducting emissions testing on in-service passenger cars up to 5 years old, in support of the Type Approval regulations.
- By publishing CO_2 data on VCA's fuel consumption web site and improving awareness.
- By supplying CO_2 data and Point of Sales software to car dealers to inform citizens considering new car purchases.
- By ensuring through vehicle Type Approval schemes, support and information provided to manufacturers that, new vehicles, systems and components are designed and consistently manufactured to appropriate environmental protection and crime prevention standards.
- By enforcing Non-Road Mobile Machinery (NRMM) gaseous emissions standards.
- By enforcing the distributor obligations under the WEEE legislation.

Improved Efficiency and Capability

- By achieving efficiency savings consistent with the Comprehensive Spending Review 2007 (CSR07) settlement which reduced VCA's overall Department Expenditure Limit (DEL) by £300k, whilst investing in VCA infrastructure and skills.
- Recovering costs taking one year with another and meeting our financial target as set by the Secretary of State to deliver a £50,000 surplus on a full cost basis in 2009-2010.
- By maintaining our financial performance across all major Type Approval areas and improving it in MSC in a difficult and uncertain global economic climate.
- By further developing the co-operation and collaboration between VCA and other agencies and departments including the Office of Government Commerce to maximise purchasing opportunities and efficiencies.
- By continuing to increase the productive utilisation of **all** staff across the Agency, building on the improvements achieved in the past 3 years, to achieve 65% by 2010-2011, 64% in 2009-10, from a baseline of 56% in 2005-2006.
- By not increasing planned overall staffing levels (FTE's) in 2009-2010 over the 2008-2009 forecast, whilst generating an income of £12.5m.

2009-2010 SECRETARY OF STATE TARGETS

The VCA key performance targets are agreed by the Secretary of State, and support those of the MFS Group. Having achieved significant progress in 2009-2010, VCA intends to continue along this path in 2010-2011 and beyond, meeting the needs of Government and industry.

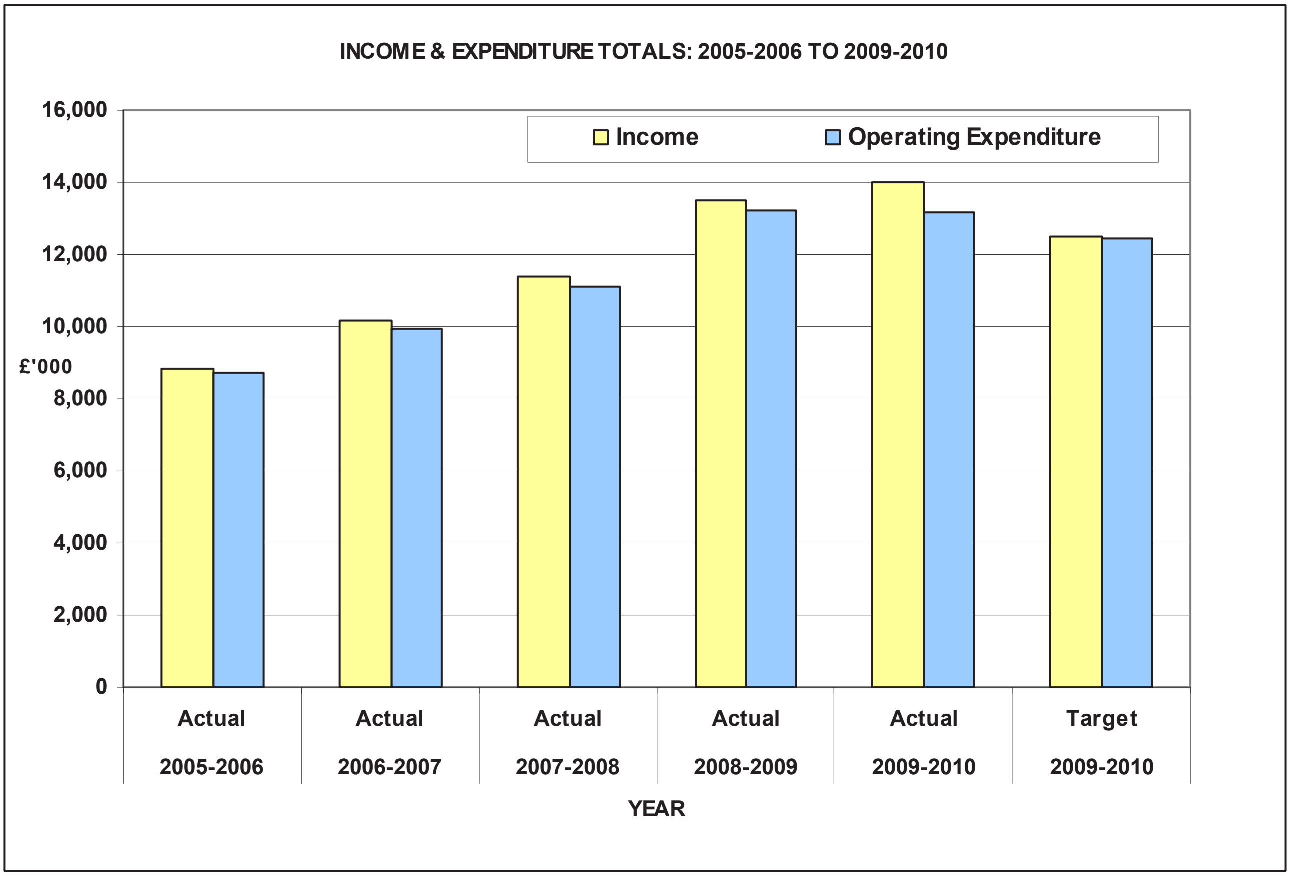
Outcome: Transforming customer service		
VCA Target & Measure	**Type**	**Status**
Complete 90% of System and Component Type Approval certificates within 9 working days	Core Business Target	Achieved – 92%
98% of appraisal reports on our technical performance from independent panel members deemed to have no critical defects	Core Business Target	Achieved – 99%
To ensure the continued consistency and quality of VCA's approvals by • Carry out a programme of Conformity of Production assessments for VCA issued approvals using a new risk based methodology. • Dangerous Goods packaging - Carry out a programme of Conformity of Production inspections in accordance with the Service Level Agreement agreed with the Department.	Core Business Target	Achieved
Deliver the customer service promises as set out in this business plan	Customer Service Target	Achieved
Implementation of ECWVTA & Small Series approvals - Development of systems and tools to assist existing and new manufacturers to comply with the revised Type Approval requirements by 31 December 2009.	Core Business Target	Achieved

Outcome: Improved road safety		
VCA Target & Measure	**Type**	**Status**
Deliver the agreed testing and enforcement programme and the agreed in-service emission testing programme by 31 March 2010.	Core Business Target	Achieved

Outcome: Improved efficiency and capability		
VCA Target & Measure	**Type**	**Status**
Achieve financial efficiency savings during 2009-10 in line with CSR07 DEL reduction.	Financial Performance Target	Achieved
To achieve a £50,000 surplus on a full cost basis	Financial Performance Target	Achieved – £865k

MANAGEMENT COMMENTARY AND BUSINESS PERFORMANCE

PERFORMANCE AGAINST BUSINESS TARGETS

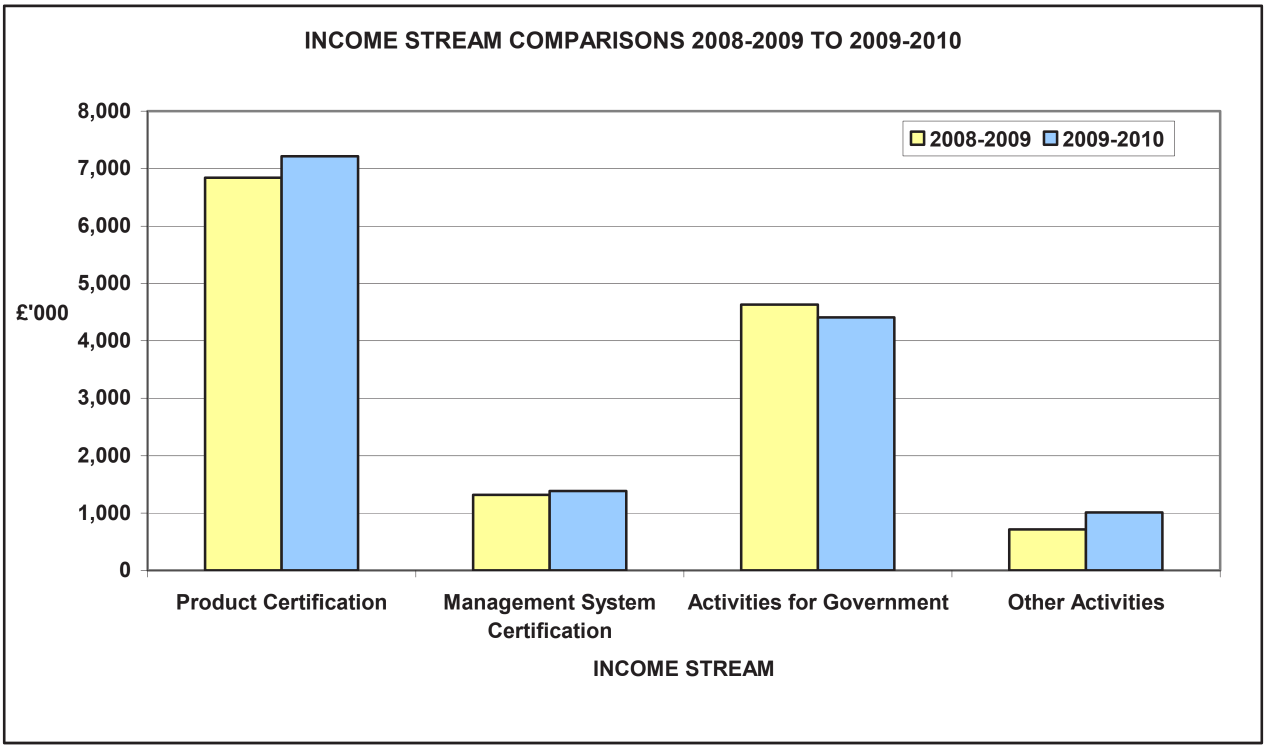


- In 2009-2010 VCA was funded on the DfT, RfR1 (Request for Resources) as a net programme cost body. It is required to cover its costs from income received. In 2009-2010 VCA's key financial target was to achieve a £50,000 surplus on a full cost basis; this was exceeded by £815,000 to a £865,000 surplus (£245,000 surplus 2008-2009). The operating surplus (including translation gains/losses on exchange) was increased in comparison with 2008-2009, £975,000 in 2009-2010 compared with £406,000 the prior year. Overall our retained surplus is now positive at £408,532, the first time since 2002-2003.

	2005-2006 Actual	2006-2007 Actual	2007-2008 Actual	2008-2009 Actual	**2009-2010 Actual**	2009-2010 Target (Business Plan)
Income	£8.82m	£10.15m	£11.39m	£13.50m	**£14.01m**	£12.50m
Expenditure	£8.74m	£9.93m	£11.09m	£13.07m	**£13.14m**	£12.45m
Surplus/ (Deficit)	£0.08m	£0.22m	£0.30m	£0.25m	**£0.87m**	£0.05m
Retained Surplus/ (Deficit)	(£1.09m)	(£1.01m)	(£0.71m)	(£0.46m)	**£0.41m**	(£0.41m)

- Overall income from all our commercial activities (excludes Activities for Government) improved by over £742,000 representing a 8.4% year on year increase.

- Total net assets increased by 26% (£1,106,000) due an to increase in non current assets, work in progress, and a decrease in provisions for liabilities and charges and other payables. Overall trade receivables fell by £626,000 (21%), however, accrued income was increased by £356,000 mainly due to two large projects totalling over £300,000.



- **Product Certification Income**. Demand for Type Approval services was high throughout the year and in all geographical regions, leading to a global increase of over 5.5% in income over 2008-2009. In particular, China and East Asia showed growth of 25% and 14% respectively. Type Approval income as a percentage of total income has risen by 1% to 51% compared with the prior year.

  VCA continued to be the chosen supplier of Type Approval services to most major global auto manufacturers with several new model programmes completed. As well as winning important work from new customers, the retention of work from established customers is as much a success. 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 increased by 5% globally resulting in a lower negative contribution of £165,000 in 2009-2010 against a negative contribution of £295,000 in 2008-2009.

  The improvement in contribution is as a result of reducing costs and securing new clients, despite continuing factory closures and long term shutdowns with several of our key clients, as they have responded to changing demands for their products. Price pressures have continued within the market especially from some of our major customers. Our investment in business development, restructuring and systems efficiencies are targeted to further continue the improvement in contribution.

- **Activities for Government.** A decrease of £224,000 (5%) was recorded over 2008-2009. This decrease was due to lower than budgeted income from both DfT and BIS but was offset in part due to additional work from DEFRA which was awarded in quarter 4 of 2009-2010. Activities for Government also covers amongst other things, policy support for Product Certification, DfT test and enforcement programmes and technical consulting services to Dangerous Goods (DG) and CFV branches of DfT, bus lane and parking enforcement camera certification, issuing of Vehicle Special Orders. Income from Government work as a percentage of total has fallen marginally to 31% compared with 34% in the prior year. The BIS WEEE contract has been extended until December 2011 and DEFRA awarded VCA a new contract to enforce parts of the Waste Batteries and Accumulators Regulations.

- **Business Risks.** The potential risks facing VCA are the same as with many commercial organisations operating in a global environment within the current economic climate, such as loss of customers due either to administration or competition, bad debt, communication issues, culture, and currency fluctuation risks. VCA has worked hard to minimise the bad debt exposure, and this is monitored on weekly basis by the senior management team. We also need to ensure that VCA's high standards and reputation remains our top priority whilst still maintaining steady market growth. Amongst other things, the Technical & Quality Support Branch was established to mitigate this specific risk.

- **Future Direction.** The development of a 10 Year Vision and business plan and the progress to date have reinforced the decision made in 2003 that VCA is a viable and valuable Agency within DfT. Subsequent reviews by the Department in 2005-2006, 2006-2007 and 2008-2009 have also confirmed this view. Further investment will continue particularly in technical competencies, ICT infrastructure and systems and overseas facilities so that the positive financial return achieved over the past five years will be sustained.

- **Research and Development.** VCA has continued to invest in knowledge and understanding in the emerging technologies in vehicle engineering. Particular emphasis was placed on developing knowledge management techniques, digital (virtual) testing, and low emission technologies.

- **Management Board.** The Management Board's members (MBM) during 2009-2010 were:

Mr P 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 P Higgs, HND, CIM	MBM for Business Development
Mr M Mulvaney, BSc	MBM for Asia Pacific Operations
Mr B Perrett, BSc AMIMechE	MBM for Market Surveillance and Enforcement
Mr A W Stenning, BSc CEng MIMechE	MBM for Technical and Quality Support

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

- **VCA Sponsor's Board.** On the 1 January 2009 the Executive Management Board was replaced by a Sponsor's Board, which in general has the same overall aims and objectives but a change in members. The members of the board are the MFS Director General, Director of Transformation, Licensing, Logistics and Sponsorship, MFS Finance Director, Head of Transport Technology & Standards, VCA Audit Committee Chair, additional Non-Executive Director, Chief Executive and Finance Director. The Sponsor Board met on three occasions during 2009-2010.

Mr S Gooding,	Director General, MFS
Ms V A Bodnar,	Director Transformation, Licensing, Logistics & Sponsorship
Mr L Gilbert,	MFS Finance Director
Ms J Adam,	Head of Transport Technology & Standards
Mr M Runnacles,	VCA Non-Executive Director and Audit Committee Chair
Mr B Macaulay	VCA Non Executive Director
Mr P Markwick, BSc CEng FIMechE	VCA Chief Executive
Mr A Buckle, BA ACMA	VCA MBM for Finance, Accounts and ICT

- **Bonus Scheme.** The Agency operates a group incentive bonus scheme that enables all staff to benefit from increased efficiency. The trigger for the payment in 2009-2010 of a bonus is a surplus 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. The surplus for the bonus calculations excludes movements in non-operational provisions and exchange translation losses/gains. In 2009-2010 all targets have been achieved and £319,000 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 and 80% of undisputed invoices within 10 days. VCA measures its performance by reviewing all invoices paid; the Agency achieved 99.61% (98.63% 2008-2009) of invoices paid within 30 days of receipt and 95.75% within 10 days of receipt in 2009-2010.

- **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(k) and 3(c).

- **Audit.** The Comptroller and Auditor General is the statutorily appointed auditor for VCA's accounts. The notional cost of audit services in 2009-2010 was £46,000 (£45,500 2008-2009). No fees, actual or notional, were incurred for non audit work (£nil, 2008-2009).

SUMMARY OF BUSINESS OBJECTIVES AND ACHIEVEMENTS

Effective Services to Customers

- VCA's China office has continued to grow with increasing demand for Type Approval services mainly from passenger car manufacturers but also from the truck and bus industry. The income for the year was £1.2 million with the office now staffed by fourteen Type Approval engineers.

- VCA India has continued to nurture new clients within a culture where long term relationships are so important, setting the foundations to provide certification services as the automotive industry pushes into exports.

- VCA Italy has built upon existing business within Italy winning significant new business within the motor cycle industry.

- VCA Australia which was opened in July 2008 has generated almost AUD$200,000 in its first full year.

- VCA took over responsibility for the issuing of Vehicle Special Orders from DfT Centre and issued 215 Orders covering 829 vehicles in 2009-2010.

- The Technical and Quality Support Branch has expanded its auditing scope to include the processes and procedures of all VCA Branches.

- 132 pieces of legislation were authored into VISTA, VCA's Vehicle Information System for Type Approval which is available to customers.

- Overall, customer satisfaction level of 92% achieved during the year.

- VCA launched a Compliance Management System (CMS) pilot December 2009 to assist manufacturers with the process of managing their product certification.

- In late 2009 the Department for Business Innovation and Skills Better Regulations Executive conducted a review of VCA's regulatory performance against the Hampton principles of effective inspection and enforcement. The review reported that it found that;
    - VCA set a high standard of regulation that demonstrated a good level of compliance with the Hampton principles;
    - VCA was a highly customer-focused organisation that has impressive relationships with its stakeholders, including business representatives; and
    - VCA demonstrated a good understanding of the way that the relevant industries are structured, and demonstrated a pragmatic approach in its attempts to bring them into compliance with the relevant law.

- Both Type Approval and Management Systems business streams have started upon the development of new and more efficient web based global operating system which will further enhance participation and value to the client, and are expected to release efficiency savings. The MSC system will be launched in June 2010.

Improved Road Safety

- VCA conducted a series of compliance checks on safety critical systems and components. The work programme was agreed with DfT and was successfully completed to schedule. As part of this work we tested several whole vehicles against current EC Directives/UNECE Regulations and UK Single Vehicle Approvals.

- A standard approach has now been implemented for appointing Notified Bodies and Inspection Bodies for the inspection of tanks and pressure receptacles to undertake the inspection of tanks and transportable pressure equipment. This has improved awareness of these bodies of their operating responsibilities.

- VCA continued to invest in knowledge development in virtual approval technologies and electronics in automotive engineering, and supported DfT in developing policies to enable the most effective use of these technologies in legislation.

- Supported DfT in the development of an understanding of sensor technology.

Better Transport Networks

- Continued the certification programme for Local Authority bus lane and parking civil enforcement camera systems within legislative deadlines, on behalf of Traffic Management Division of DfT.

Reduced Impact on Climate Change and the Environment

- 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 the WEEE Regulations for distributors. In 2009-2010 VCA visited over 5,000 retailers (a mixture of enforcement, internet and market research visits) to monitor and check on compliance with the regulations, compliance has increased from 50% in March 2009 to just under 60% in March 2010. The WEEE and Batteries Helpline also took over 1,200 enquiries on the regulations, of which the team advise and guide the distributor through the compliance process.

- Enforcement of the replacement Pollution Control Devices Regulations.

- The agreed programme of in-service emissions tests of passenger cars commissioned by the DfT was completed, the results of which have now been published on their website.

- Enforcement of Non Road Mobile Machinery (NRMM) gaseous and particulate emissions and Noise for Equipment used outdoors regulations.

- Outdoor Noise Enforcement equipment testing programme was completed on schedule.

- Continuing the provision and publication of new car fuel consumption data and CO_2 data, electronically and in printed format. During 2009-2010 VCA added used cars to the database. The VCA web site received 730,000 unique visits in 2009-2010, supporting the Government's strategic drive towards the reduction in CO_2 emissions. (A unique visitor is a statistic describing a unit of traffic to a web site, counting each visitor only once in the time frame of the report. This statistic is relevant to site publishers and advertisers as a measure of a site's true audience size, equivalent to the term "Reach" used in other media).

- The fuel consumption and CO_2 database for vans (under 3,500kgs), was launched in 2009-2010.

- VCA supported the DfT Office for Low Emission Vehicles (OLEV) in developing technical requirements for the Plug-In Car Grant scheme.

Improved Efficiency and Capability

VCA has continued to increase the productive utilisation of its staff in 2009-2010, allowing the Agency to deliver more from its front line staff, while realising savings in procurement and back-office.

2009-2010 main highlights are:-

- No increase in Type Approval fees and charges since 2006.

- Achieving the CSR07 DEL saving.

- Utilisation of **all** staff maintained at 68% in 2009-2010 against a target of 64%.

- Increased turnover per Full Time Equivalent (FTE) from £82K in 2008-2009 to £85k in 2009-2010

REVIEW OF AGENCY DEVELOPMENTS

Data and Information Assurance

- VCA operates in a Business to Business environment mainly with the automotive industry. As such the Agency does not hold or process personal data in respect of the general public. Some data held on VCA's ICT network and laptops of Type Approval engineers could be classed as commercially sensitive. All staff handling this data are required to sign a confidentiality agreement on joining VCA. All staff undertake training and are periodically reminded of the importance of protecting this data. To protect loss of this data through loss or theft of laptops, VCA has encrypted the hard discs of all laptops to the UK National Technical Authority on Information Assurance (CESG) approved standards.

- VCA is committed to implementing the recommendations of the Cabinet Office review of data handling. The agency has appointed at board level a Senior Information Risk Owner (SIRO). The SIRO is responsible for both business and information risk and has the role to support actions to improve the level of information assurance including risk assessment and risk management throughout the Agency.

- VCA has identified all information assets, and appointed owners. The information asset owners are responsible for implementing the recommendations of the data handling review and are required to review their risks quarterly and provide written assurance reports to the Agency SIRO.

- The Agency regularly reviews and updates security policies and procedures taking in to account guidance received from DfT, Cabinet Office and other government security agencies.

Finance and ICT

- The VCA remote access facility for mobile staff has been further upgraded to provide a more stable service.

- The Agency has invested in major ICT infrastructure renewal in including the installation of Storage Area Networks improving ICT resilience, availability and data security.

- Migration to Microsoft Exchange from Novell Groupwise to improve communications both within VCA and with DfT. This is planned for completion by the end of the first quarter in the new financial year.

- 2009-2010 has seen investment in VCA's finance systems, in particular our time recording, expenses and sales invoicing system (SharpOWL) has been upgraded.

Personnel Management

- The Agency's Personnel Management team has taken forward a number of new issues, driven by the DfT 4Ward and Change programmes, and our own business needs. Areas of particular note are:
  - Undertook staff survey and produced Action Plan to take forward issues arising;
  - Conducted further round of the VOSA/VCA Graduate Engineering Scheme and progression to permanent positions from the scheme;
  - Produced a single equality scheme and the annual equality monitoring return;
  - Introduced the "Your Reward" scheme;
  - Introduced absence management workshops; and
  - Recruited individuals into key posts.

- 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 11 new starters, of which 6 were male and 5 female. The average number of Civil Service FTE's in 2009-2010 was 135.

Staff Development

- The number of training and development days and spend has remained on target with approximate expenditure per head of £750 and in particular:
  - Further round of Appreciative Learning for all staff;
  - Regular talent management and succession planning considerations;
  - New Managers and Support Groups meeting regularly to exchange best practice and to encourage personal development;
  - Reviewed and refreshed the Agency's Induction programme;
  - A number of staff have achieved business-based and vocational qualifications during the year enhancing the professional capability of the Agency and ensuring we continue to meet industry based standards and requirements; and
  - Contributions to the Government's Skills Strategy including embedding the Professional Skills for Government framework.

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:
  - Healthy lifestyle programme offered to staff and assisted access to a local gymnasium for HQ staff;
  - Refurbishment of HQ meeting rooms;
  - Improved e-enabled services such as booking rooms and pool vehicles;
  - Refurbishment and expansion of our Nuneaton office; and
  - Formal and informal discussions take place with trade unions through the regular meetings of the Agency's Whitley Committee.

Customer Service

- Maintenance of 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 BIS).

- VCA began to develop its understanding of knowledge management techniques and sponsored discussion across DfT via the VCA-sponsored DfT Vehicle Technology Forum. VCA demonstrated a technical knowledge encyclopedia.

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

- The Agency maintained close links with TTS, Cleaner Fuels and Vehicles (CFV), and Office for Low Emission Vehicles (OLEV) policy officials. VCA staff pro-actively offer advice and support on significant issues. Regular joint VCA/TTS Heads of Branch meetings are held to share knowledge and improve working relations to improve efficiencies.

- Close links were also maintained with BIS and DEFRA policy officials.

Environmental Policy

- The Agency takes its environmental responsibility seriously and this is accomplished via our Sustainability Plan. This is based on DfT and industry best practice guidelines. Areas to note include:
  - Production of Agency Sustainability Development (SD) Plan and the formation of a SD Focus Group to take forward targets, suggestions, to monitor, report on progress; and
  - Recycling of paper, batteries, mobile phones, cartridges, furniture, plastic bottles and cans.

Sustainability

- VCA is fully engaged in DfT's commitment to Sustainable Development (SD), and has published an Action Plan which covers amongst other things targets reducing carbon emissions from offices, ICT, office equipment, road vehicles, waste and water consumption.

- The Agency has established a very active SD Focus Group which is taking forward a number of initiatives such as appointing waste champions, raising awareness of SD matters through the Agency's Intranet and progressing the recommendations arising out of the energy audits held for its two main UK sites. Our ISO14001 auditing capabilities have been utilized internally to share industry good practice.

- Some key examples of the steps the Agency has taken and is continuing to take as a contribution to the delivery of the Department's strategy are:
  - Collating and publishing information (colour coded environment labels) on the fuel consumption and emissions of new and used vehicles, so that purchasers may make an informed choice when purchasing new and used vehicles;
  - Conducting in-service testing (the testing of vehicles that have been in-use for some time after purchase) to ascertain the degree to which the vehicle's gaseous emissions performance changes as it ages;
  - Testing new vehicles to ensure they meet the appropriate noise and emissions standards, thereby providing a degree of protection to the environment. Note: in this respect, VCA staff witness tests in the UK and overseas; whilst this implies a level of travel, the overall outcome are a reduction in emissions given the production volumes of cleaner and safer vehicles;
  - Developing knowledge of sustainable vehicle emission technology developments and sharing this knowledge across the Department, working closely with CFV;
  - Developing and adopting CO_2 Green ICT objectives such as purchasing 'Energy Star' compliant PC's and servers;
  - Introduction of a cycle to work scheme; and
  - Updating the Agency's travel plan.

Diversity

- VCA firmly believes in utilising the potential and strengths of different people in the organisation, treating people as individuals, embracing variety, rejecting prejudice and accommodating changing working patterns. VCA believes that using a flexible people management approach motivates staff and creates an environment that enables all members of the Agency to be productive and to feel fulfilled. The recent Civil Service staff engagement survey has verified the progress the Agency has made.

- VCA has had a Diversity Action Plan in place for a number of years with the aims of:
  - Creating a culture that values and promotes diversity
  - Ensuring that managers demonstrate a commitment to diversity
  - Developing and bringing on talent from diverse groups
  - Ensuring recruitment processes reflect commitment to diversity; and
  - Mainstreaming diversity in the business

- All staff within the Agency attend diversity, bullying and harassment awareness courses as part of VCA's induction training plus refresher courses where appropriate.

- The Agency has had a Race Equality Scheme, Disability Action Plan and Gender Equality Scheme in place and this has now led to the production of Equality Impact Assessments. VCA also seeks staff views through regular staff surveys. The 2009 survey showed that 88% of staff viewed VCA as a diverse employer, an increase from the previous survey.

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; and
  - Attending local job fairs and Action Group meetings.

Total Quality

- Investment continued in VCA's Technical & Quality Support Branch in order to ensure robust control of technical competence and internal quality, and the timely provision of technical and policy advice to operational offices. 644 legislation interpretation questions were answered and 1393 pieces of legislation were downloaded, analysed, and logged onto VCA systems.

- All VCA offices globally were successfully re-audited against the new requirements for Type Approval Technical Services in the Recast Framework Directive 2007/46/C and their Technical Service designations were maintained.

- The first Type Approval Engineers' Conference was held and was attended by delegates from all VCA global offices. Discussions included process improvement, legislation, and technical seminars.

- For MSC work our accreditations to ISO17021 by the United Kingdom Accreditation Service (UKAS) and to TS16949 by the International Automotive Task Force (IATF) were maintained following successful audits.

- We develop our internal key targets and indicators to ensure we deliver the service that customers and stakeholders need (as indicated and borne out by surveys and consultation).

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 Agency Accounting Officer
8 July 2010

REMUNERATION REPORT

CHIEF EXECUTIVE OFFICER - Remuneration and Performance

Mr Paul Markwick is VCA's sole Senior Civil Servant (SCS) and is employed on contract terms. The contract contains a fixed notice period of 3 months, which may be terminated 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 recommendations, 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.

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.

From 1 April 2009 remuneration in respect of non-executive directors in their capacity as Executive Management Board members was made by VCA, totaling £13,628 in 2009-2010.

Remuneration of Chief Executive and Management Board Members

Name and title	Salary	Real increase in pension and related lump sum at pension age	2009-2010 Total accrued pension at pension age at 31 March 2010 and (related lump sum)	Cash Equivalent Transfer Value at 31 March 2009	Cash Equivalent Transfer Value at 31 March 2010	Real increase in Cash Equivalent Transfer Value	2008-2009 Salary
	£000	£000	£000	£000	£000	£000	£000
Mr P Markwick	110-115	0-2.5	10-15 (-)	134	174	40	110-115
Mr R Brayfield	65-70	2.5-5	15-20 (45-50)	322	366	44	65-70
Mr J Bragg	65-70	-	-	-	-	-	60-65
Mr A J Buckle	55-60	5-7.5	20-25 (60-65)	328	371	43	55-60
Mr A Grimm	60-65	5-7.5	20-25 (65-70)	447	500	53	55-60
Mr P Higgs	55-60	0-2.5	0-2 (-)	1	22	21	25-30 (50-55)
Mr M Mulvaney	60-65	5-7.5	15-20 (55-60)	359	410	51	55-60
Mr B Perrett	55-60	5-7.5	15-20 (55-60)	345	400	55	55-60
Mr A W Stenning	60-65	5-7.5	20-25 (65-70)	419	472	53	55-60
Mr C Border	50-55	5-7.5	20-25 (65-70)	455	514	59	45-50

Mr P Higgs joined on the 17 September 2008, actual in year remuneration shown in brackets under their salary in the table above.

Additionally there was (£10k-£12.5k) 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 has been subject to audit.

Salary

The above includes all the members of the Management Board as at 31 March 2010. The total salary of the Chief Executive includes the payment of a bonus under the SCS scheme and relates to the achievement of objectives in respect of the 2009-2010 Financial Year. All other members of the Management Board are included in the VCA Group Bonus Scheme in which they receive the same bonus amount as all other VCA Civil Servants. This is defined within the MFS Governance Handbook as limited to 5% of total pay budget and subject to approval by the Director General, taking into account delivery against the Agency's Business Plan targets. Salaries include gross salaries and 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 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic, premium or classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic, premium, classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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, classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings 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. **Classic plus** is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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 from a panel of three providers. 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 pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium and classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

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 Civil Service Pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension benefits 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 Agency Accounting Officer
8 July 2010

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FINANCIAL STATEMENTS

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) 04/09.

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 statement of income, changes in taxpayers equity 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 Motoring and Freight Services Group (MFS) has appointed the Chief Executive of the Vehicle Certification Agency as the Accounting Officer for the Agency.

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 MFS Governance Handbook and in "Managing Public Money" (HM Treasury).

The maintenance and integrity of the Agency website is the responsibility of the Accounting Officer. The work carried out by the Auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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 Managing Public Money.

- VCA operates in accordance with the MFS Governance Handbook authorised by the Secretary of State for Transport and this defines the Agency's operating and financial accountability and responsibility.
- An Agency Sponsor Board reviews 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 2009-2010. The members of the board are the MFS Director General, Director of Transformation, Licensing, Logistics and Sponsorship, MFS Finance Director, Head of Transport Technology & Standards, VCA Audit Committee Chair, additional Non-Executive Director, Chief Executive and Finance Director. The Sponsor Board met on three occasions during 2009-2010.
- VCA participates fully in the MFS co-ordinated business planning, performance delivery and risk reporting systems. VCA reports monthly to MFS on its financial performance, progress towards Secretary of State and Key Business targets and high level risks.

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 2010 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 is 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 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) and our Intranet. 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 based on guidance published by HM Treasury. The register is 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 to ensure that it is still 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 MFS and DfT.
- VCA supplies a monthly financial report to DfT/MFS, 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 MFS Finance personnel.
- VCA supplies a monthly report to MFS highlighting VCA's top five risks showing the potential impact on Departmental Strategic Objectives, Secretary of State targets and progress against mitigating actions. VCA also regularly attends the monthly MFS risk managers meeting.
- At the VCA 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's targets, aims and objectives are fed into VCA's corporate risk register and risk management system.
- As the agency operates and has customers worldwide, it is exposed to exchange rate fluctuations and therefore financial risk. The Agency mitigates this risk by matching local income to local spend wherever possible.
- 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.

Information Assurance

- VCA operates in a Business to Business environment mainly with the automotive industry. As such the Agency does not hold or process 'protect personal' data in respect of the general public. Reports on data security covering incidents, training and other data security related activities are presented and discussed at the Management Board Meetings. During 2009-2010 one item of computer equipment was stolen; it was fully encrypted and did not hold any commercial-in-confidence or 'protect personal' data.

- In 2009-2010, the VCA Management Board has reviewed and approved the Information Risk and Security Policy. The system is also audited on an annual basis by the Audit & Risk Assurance Division of DfT. To protect data in case of loss or theft of laptops, VCA has encrypted the hard discs of all laptops to the UK National Technical Authority on Information Assurance (CESG) standards; also the use of unencrypted USB memory sticks and other removable storage media has been prohibited in line with DfT policy. Where required for business purposes, encrypted USB memory sticks have been issued with strict guidance on use.
- VCA is committed to implementing the recommendations coming out of the Cabinet Office review of data handling. The Agency has appointed at board level a Senior Information Risk Owner (SIRO). The SIRO is responsible for both business and information risk and has the role to support actions to improve the level of information assurance including risk assessment and risk management throughout the Agency. They report to the Agency Management Board and are required to provide a quarterly assurance report to the DfT SIRO.
- VCA has received the assurance from the DfT Shared Services Centre in respect to payroll processing.

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**
  The VCA Management Board meets on a regular basis, normally eleven times a year and consists of the Chief Executive, VCA Heads of Branches and two non-executive members.

- **Audit Committee**
  The Audit Committee is chaired by a non-executive member of the Management Board and comprises two other non-executive members. The VCA Chief Executive and Finance Director as well as representatives from internal and external audit are invited to attend Audit Committee meetings. The terms of reference were reviewed in 2009-2010 and are 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 normally to meet only three times per year as this was considered appropriate and proportionate for the Agency.

- **Internal Audit**
  ARA operates to the standards defined in 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. On an annual basis, 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.

  My Head of Internal Audit has informed me that the arrangements for risk management, governance and control processes have been adequate and effective in 2009-2010. Some internal audit reports were issued with an overall 'weak' opinion. However, my Head of Internal Audit concluded that none of these, either individually or in aggregate, warranted specific mention in the opinion.

- **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 Management System Certification work.

  Audits of all activities, covering the processes and procedures, are carried out by VCA Central Quality Internal Audit following ISO9001 conventions, to an agreed programme, findings are recorded for resolution and reported to the Management Board. This is supplemented by a programme of audits on Type Approval work conducted by a panel of independent experts.

PAUL MARKWICK
Chief Executive and Agency Accounting Officer
8 July 2010

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 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Income, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows 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 been audited.

Respective responsibilities the Chief Executive and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities**,** the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2010, and of the surplus, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary and Business Performance section included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP
16 July 2010

STATEMENT OF INCOME
for the year ended 31 March 2010

	Notes	2009-2010	2008-2009
		£'000	£'000
REVENUE	**2**	**14,013**	13,495
Cost of sales		**(10,776)**	(10,341)
GROSS SURPLUS		**3,237**	3,154
Administrative expenses - Non Pay	**4**	**(1,078)**	(1,763)
Administrative expenses - Pay		**(1,184)**	(985)
OPERATING SURPLUS		**975**	406
Interest receivable	**6**	**-**	11
Notional cost of capital	**7**	**(110)**	(172)
SURPLUS FOR THE YEAR		**865**	245

Revenue and operating surplus are derived entirely from continuing operations.

The notes on pages ix to xxiv form part of these accounts.

STATEMENT OF FINANCIAL POSITION
as at 31 March 2010

	Note	**31 March 2010** **£'000**	31 March 2009* £'000	1 April 2008* £'000
Non-current assets:				
Intangible assets	8	**376**	231	180
Property, plant and equipment	9	**913**	719	695
Total non-current assets		**1,289**	950	875
Current assets				
Inventories		**284**	234	32
Trade and other receivables	10	**3,165**	3,543	2,868
Cash and cash equivalents	11	**3,447**	3,584	3,194
Total current assets		**6,896**	7,361	6,094
Total assets		**8,185**	8,311	6,969
Current liabilities				
Trade and other payables	12	**(2,338)**	(3,042)	(2,993)
Provisions	13	**(500)**	(1,028)	(290)
Total current liabilities		**(2,838)**	(4,070)	(3,283)
Assets less liabilities		**5,347**	4,241	3,686
Taxpayers' equity				
General Fund		**5,211**	4,203	3,651
Revaluation reserve	14	**136**	35	23
Government Grant reserve		**-**	3	12
Total taxpayer's equity		**5,347**	4,241	3,686

* Note: Due to the reclassification of cash advances from DfT totalling £1,000,000, prior year Current liabilities have been increased and Taxpayer's equity has been decreased by this amount.

The notes on pages ix to xxiv form part of these accounts.

PAUL MARKWICK
Chief Executive and Agency Accounting Officer
8 July 2010

STATEMENT OF CASH FLOWS
for the year ended 31 March 2010

	Note	2009-2010 £'000	2008-2009 £'000
Cash flows from operating activities			
Operating surplus		**975**	406
Adjustments for non-cash transactions			
Depreciation charges	**4**	**159**	142
Depreciation charges transferred to government grant reserve		**(3)**	(9)
Amortisation charges	**4**	**80**	64
Loss on disposal of non current assets	**4**	**30**	17
Revaluation reserve movement		**(6)**	(13)
Notional charges	**5**	**33**	135
		1,268	742
(Increase) in inventories		**(50)**	(202)
Decrease/(increase) in trade and other receivables	**10**	**378**	(675)
(Decrease)/increase in trade and other payables	**12**	**(704)**	49
(Decrease)/increase in provisions	**13**	**(528)**	738
Net cash inflow from operating activities		**364**	652
Cash flows from investing activities			
Purchase of property, plant and equipment	**9**	**(306)**	(164)
Purchase of intangible assets	**8**	**(195)**	(109)
Net cash outflow from investing activities		**(501)**	(273)
Cash flows from financing activities			
Interest received	**6**	**-**	11
Net cash inflow from financing activities		**-**	11
Net (decease)/increase in cash and cash equivalents in period		**(137)**	390
Net (decrease)/increase in cash and cash equivalents in period		**(137)**	390
Cash and cash equivalents at the beginning of the period	**11**	**3,584**	3,194
Cash and cash equivalents at the end of the period	**11**	**3,447**	3,584

The notes on pages ix to xxiv form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the year ended 31 March 2010

	General Fund £'000	Revaluation Reserve £'000	Government Grant Reserve £'000	Total Reserves £'000
Taxpayers Equity at 1 April 2009	4,203	35	3	4,241
Surplus for the year	865	-	-	865
Notional cost of capital	110	-	-	110
Notional charges in the year (note 5)	33	-	-	33
Surplus on revaluation of non current assets	-	181	-	181
Backlog depreciation of re-valued non current assets and loss on disposal	-	(80)	-	(80)
Released to statement of income	-	-	(3)	(3)
Taxpayers Equity at 31 March 2010	**5,211**	**136**	**-**	**5,347**

For the year ended 31 March 2009

	General Fund £'000	Revaluation Reserve £'000	Government Grant Reserve £'000	Total Reserves £'000
Taxpayers Equity at 1 April 2008	3,651	23	12	3,686
Surplus for the year	245	-	-	245
Notional cost of capital	172	-	-	172
Notional charges (note 5)	135	-	-	135
Surplus on revaluation of non current assets	-	31	-	31
Backlog depreciation of re-valued non current assets	-	(19)	-	(19)
Released to statement of income	-	-	(12)	(12)
Revaluation depreciation	-	-	3	3
Taxpayers Equity at 31 March 2009	**4,203**	**35**	**3**	**4,241**

The notes on pages ix to xxiv form part of these accounts.

NOTES TO THE IFRS FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

The financial statements have been prepared in accordance with the 2009-2010 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is 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 particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

b. Accounting Convention

The accounts are prepared under the historical cost convention, modified to account for the revaluation of non-current assets and inventories, where material, at their value to the business by reference to their current costs.

c. First-time adoption of International Financial Reporting Standards

As these financial statements represent the Agency's first-time adoption of IFRS, an explanation of the effect of transition is given in Note 20.

In accordance with IFRS 1, the Agency has prepared an opening IFRS statement of financial position as at 1 April 2008. It has used the same accounting policies in the opening statement of financial position as these financial statements.

d. 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.

e. Non Current Assets: Intangible assets

Capitalisation

Intangible non-current assets, which are defined as non-financial assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights, are capitalised if they meet the following criteria;

- they are capable of being used for a period which exceeds one year, and
- they have a cost equal to or greater than £1,000 or
- they comprise applications software and licences with a cost of £1,000 or more.

Intangible assets are amortised over 3-5 years.

Intangible non-current assets are stated at their cost, revalued to fair value using appropriate indices published by the Office for National Statistics and amortisation on such revalued amounts is provided on a straight line basis over the estimated useful lives of the assets.

f. Non Current Assets: Property, Plant & Equipment

Capitalisation

Tangible non-current assets, which are defined as non-financial assets that have physical substance and are identifiable and are controlled by the entity through custody or legal rights, are capitalised if they meet the following criteria;

- they are capable of being used for a period which exceeds one year, and
- they have a cost equal to or greater than £1,000.

Property, Plant & Equipment is 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. Property is subject to professional valuation at least every five years in accordance with RICS guidance. In the years between professional valuations the VCA Management Board reviews the valuation to ensure there has not been a material change. Depreciation is charged in the month of acquisition and not in the month of disposal. Estimated useful lives are:

Plant and machinery	10 years
Furniture and fittings	10 years
Information technology and office equipment	3-5 years
Buildings excluding dwellings	Buildings are depreciated over the lower of useful economic life or land lease period; and land is not depreciated.
Transport equipment	4 years

g. 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 statement of income.

ii. Audit Fee

The Vehicle Certification Agency is not charged an audit fee by the National Audit Office. A notional audit fee is charged to the statement of income based on the cost of the audit of the financial statements.

iii. Intra-Departmental Charges

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

h. Inventories - Stocks and Work in Progress

Work in progress represents costs incurred to the Statement of Financial Position 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.

i. Foreign Exchange

Monetary assets and liabilities in foreign currencies are translated into sterling at rates ruling at the Statement of Financial Position date. Transactions in foreign currencies during the year are recorded in sterling at the average rate of exchange ruling in the month of the transaction. The resulting exchange differences are taken to the statement of income

j. Leases

All costs of operating leases are charged to the statement of income as they are incurred. At present there are no finance leases.

k. Pension Costs

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described at Note 3. 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 employer's 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.

l. Financial Assets and Liabilities

The Agency classifies its financial assets under loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are recognised at fair value which is not materially different from the book value.

The Agency classifies its financial liabilities under payables.

Payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Payables are recognised at amortised cost.

m. Early Retirement Costs

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

n. Prior Year adjustments

Material adjustments applicable to prior periods arising from machinery of government changes, accounting policy changes, or from the correction of errors are accounted for by restating prior year figures in accordance with IAS 8.

o. Holiday pay

Individual employee's holiday pay years commence from their start date under employee contracts of employment and as a consequence an accrual is required for the unused portion of that entitlement as at the year end in accordance with IAS19.

p. Cash and cash equivalents

Cash and cash equivalents represent the balance of cash held in banks and accounts held within the Office of the Paymaster General.

q. Provisions

Provisions represent the balance of uncertain items and have been calculated using the best information available at the time of these accounts.

r. Adoption of new and revised standards

i. **Standards**

There were no other new or revised Standards and Interpretations adopted in the current year.

As at the 31 March 2010, the following Standards and Interpretations have been issued but not yet effective (and in some cases not yet adopted by the EU):

- IAS 24 Related party disclosures (amended), effective for annual periods beginning on or after 1 January 2011.
- IAS39 Financial Instruments (amended): effective for annual periods beginning on or after 1 July 2009. The amendments provides clarification on how the principle that determines whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situation.
- IFRS 9 Financial Instruments: effective for annual periods beginning on or after 1 January 2013. However, this can be adopted in phases. Phase 1 is on or after 1 January 2009. This is a new standard on classification and measurement of financial assets that will replace IAS39.

The adoption of the above standards and interpretations in future periods will have no material effect on the Agency's financial statements.

ii. **FReM**

The Government Financial and Reporting Manual (FReM) includes the following accounting changes that have been issued and will be effective in 2010-11:

- Notional Cost of Capital charge: the notional Cost of Capital calculated for each class of business, as required by HM Treasury, will no longer be applicable. This will affect the Operating Cost Statement (which for 2009-10 includes a charge of £110,115 and will be offset by an equivalent adjustment in the Statement of Changes in Taxpayers' Equity.

2. REVENUE

Revenue is derived entirely from continuing operations.

a. Segmental Reporting

The following information summarises the final report to the Agency's management team for the year ending 31 March 2010.

2009-2010	**Revenue**	**Full Cost**	**Operating Surplus/ (Deficit)**	**Total Assets**
	£'000	**£'000**	**£'000**	**£'000**
Product Certification	**7,215**	**6.512**	**703**	**4,214**
Management System Certification	**1,382**	**1,732**	**(350)**	**807**
Activities for Government	**4,405**	**3,906**	**499**	**2,573**
All other segments	**1,011**	**888**	**123**	**591**
Total	**14,013**	**13,038**	**975**	**8,185**
Servicing of Finance				
Interest Received			**-**	
Notional Cost of Capital			**(110)**	
Net Operating Cost as per statement of income			**865**	

Note 2 (cont'd)

2008-2009

	Revenue	Full Cost	Operating Surplus/ (Deficit)	Total Assets
	£'000	£'000	£'000	£'000
Product Certification	6,839	6,237	602	4,042
Management System Certification	1,315	1,872	(557)	810
Activities for Government	4,629	4,372	257	2,851
All other segments	712	608	104	608
Total	13,495	13,089	406	8,311
Servicing of Finance				
Interest Received			11	
Notional Cost of Capital			(172)	
Net Operating Cost as per statement of income			245	

Activities for Government are analysed in the related party note (note 18) and account for 31.4% (2008-2009: 34.3%) of total turnover and therefore is regarded a major group of customers.

b. Geographical Analysis

The Agency receives no funding from Central Government, deriving all of its income from services to Government Departments and External Customers.

	2009-2010			**Total**	2008-2009			Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
	UK	**Japan**	**USA**	**Total**	UK	Japan	USA	Total
Product Certification	**4,983**	**1,238**	**994**	**7,215**	4,782	1,083	974	6,839
Management System Certification	**701**	**-**	**681**	**1,382**	745	-	570	1,315
Activities for Government	**4,405**	**-**	**-**	**4,405**	4,629	-	-	4,629
All other segments	**658**	**353**	**-**	**1,011**	565	145	2	712
Total	**10,747**	**1,591**	**1,675**	**14,013**	10,721	1,228	1,546	13,495
Non-current assets	**1,289**	**-**	**-**	**1,289**	950	-	-	950

The financial objective of each of the services is full recovery of service costs. Performance against objectives for MSC work reflects the difficult economic climate within the motor industry and the turnaround timeframe for reacting to changes within the sector. Sales in China, India and Italy are accounted for in the UK office whilst the Japan office covers the Asia Pacific region including Australia and Malaysia.

3. STAFF NUMBERS AND RELATED COSTS

a. Staff Costs comprise

	2009-2010 £'000 Permanently employed staff	2009-2010 £'000 Others	2009-2010 £'000 Total	2008-2009 £'000 Permanently employed staff	2008-2009 £'000 Others	2008-2009 £'000 Total
Wages and salaries	**5,472**	**-**	**5,472**	4,967	-	4,967
Social security costs	**442**	**-**	**442**	384	-	384
Other pension costs (Note 3c)	**805**	**-**	**805**	855	-	855
Agency, Temporary and Contract Staff	**-**	**1,809**	**1,809**	-	1,710	1,710
Total net costs	**6,719**	**1,809**	**8,528**	6,206	1,710	7,916

b. Average number of full time equivalent employees

	2009-2010 Number Permanently employed staff	2009-2010 Number Others	2009-2010 Number Total	2008-2009 Number Permanently employed staff	2008-2009 Number Others	2008-2009 Number Total
Senior management	**10**	**-**	**10**	10	-	10
Professional, technical & technical support	**106**	**28**	**134**	107	26	133
Administrative support	**19**	**2**	**21**	19	2	21
Total	**135**	**30**	**165**	136	28	164

Technical support staff are involved in fee-earning activities. Within the total for 'Others' there are 27 full-time equivalent locally engaged overseas staff. (2008-2009; 25).

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 2007 Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009-2010, normal employer's contributions of £789,131 (2008-2009; £841,981) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% (2008-2009; 17.1% to 25.5%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. 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 2009-2010 payments of £15,077 (2008-2009; £13,423) were made to this scheme.

4. ADMINISTRATIVE EXPENSES

	Note	2009-2010 £'000	2008-2009 £'000
Bad debt provision		**(166)**	655
Admin provisions		**(415)**	502
Head Office rent and rates		**252**	257
Computer running costs		**301**	237
Legal and consultancy		**80**	92
Travel and subsistence		**60**	63
Realised exchange loss/(gain)		**57**	(77)
Exchange loss/(gain) on translation	**14**	**11**	(865)
Depreciation charges (net)	**9**	**159**	142
Amortisation of intangible assets	**8**	**80**	64
Loss on disposal of non current assets		**30**	17
DfT Charges		**98**	89
Audit fee		**46**	46
Other admin expenses - cash		**485**	541
Total administrative – non pay expenses		**1,078**	1,763

Administrative expenses include rent and rates relating to Overseas Operations.

Historic and revaluation depreciation is net of movements to the Government Grant Reserve of £2,840 (2008-2009; £9,140) including permanent diminution on revaluation (Note 9). Total asset charges to the statement of income after movements to the Government Grant Reserve is £236,635 (2008-2009; £200,231); this excludes total net movements to the revaluation reserve of £14,851 (2008-2009; £11,868).

5. NOTIONAL CHARGES

	2009-2010 £'000	2008-2009 £'000
DfT on-costs	**(13)**	89
Audit fee	**46**	46
Total	**33**	135

DFT on-costs - These are included to reflect the cost of services provided by other units within the DfT. The amounts are calculated to reflect the full cost of providing these services to the Agency. The DfT on-costs reflect a charge of £31,500 and a credit of £44,600.

Audit fee - This is included for the annual audit of the Agency's Financial Statements by the Comptroller and Auditor General. The auditors received no remuneration for non audit services

VCA recovers full costs in accordance with the fees and charges policy, which includes recovery of notional charges.

6. INTEREST RECEIVABLE

	2009-2010 £'000	2008-2009 £'000
Interest on UK bank accounts	**-**	6
Interest on overseas bank accounts	**-**	5
Bank Interest	**-**	11

7. NOTIONAL COST OF CAPITAL

	2009-2010 £'000	2008-2009 £'000
Non current assets	**41**	31
Bank balances	**67**	95
Other assets	**2**	46
Notional cost of capital	**110**	172

Cost of Capital is calculated at the Government's standard rate of 3.5% in real terms on all assets less liabilities, excluding cash balances with the OPG where the charge is nil.

8. NON-CURRENT ASSETS: INTANGIBLE ASSETS

	Software Licences £'000	**Information Technology £'000**	**Total £'000**
Cost or Valuation			
As at 1 April 2009	146	430	576
Additions	30	165	195
Disposals	(23)	(17)	(40)
Revaluations	18	65	83
As at 31 March 2010	**171**	**643**	**814**
Amortisation			
As at 1 April 2009	95	250	345
Charge for year	17	63	80
Disposals	-	(16)	(16)
Revaluations	6	23	29
As at 31 March 2010	**118**	**320**	**438**
Net Book Value			
As at 31 March 2010	**53**	**323**	**376**
As at 31 March 2009	51	180	231

	Software Licences £'000	Information Technology £'000	Total £'000
Cost or Valuation			
As at 1 April 2008	141	463	604
Additions	11	98	109
Disposals	-	(12)	(12)
Revaluations	(6)	(119)	(125)
As at 31 March 2009	**146**	**430**	**576**
Amortisation			
As at 1 April 2008	110	314	424
Charge for year	18	46	64
Disposals	-	(12)	(12)
Revaluations	(33)	(98)	(131)
As at 31 March 2009	**95**	**250**	**345**
Net Book Value			
As at 31 March 2009	**51**	**180**	**231**
As at 1 April 2008	31	149	180

Intangible non current assets are carried at fair value using indexation.

Note 8 (cont'd)

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 statement of income. In 2009-2010 the total amount taken to the statement of income as impairment in value was zero (2008-2009; £nil, 2007-2008; £nil). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

9. NON-CURRENT ASSETS: TANGIBLE ASSETS – PROPERTY, PLANT & EQUIPMENT

	Buildings excluding Dwellings	**Transport Equipment**	**Furniture & Fittings**	**Information Technology and Office Equipment**	**Plant & Machinery**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost or Valuation						
As at 1 April 2009	238	43	177	670	316	1,444
Additions	-	23	17	170	96	306
Released on Disposals	-	(14)	-	(35)	-	(49)
Revaluation	-	-	(1)	97	3	99
As at 31 March 2010	**238**	**52**	**193**	**902**	**415**	**1,800**
Depreciation						
As at 1 April 2009	9	21	117	452	126	725
Charge for year	8	5	16	97	33	159
Released on Disposals	-	(10)	-	(33)	-	(43)
Revaluation	-		(1)	46	1	46
As at 31 March 2010	**17**	**16**	**132**	**562**	**160**	**887**
Net Book Value						
As at 31 March 2010	**221**	**36**	**61**	**340**	**255**	**913**
As at 31 March 2009	229	22	60	218	190	719

	Buildings excluding Dwellings	Transport Equipment	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation						
As at 1 April 2008	195	43	174	542	267	1,221
Additions	43	-	-	59	62	164
Released on Disposals	-	-	(2)	(57)	(32)	(91)
Revaluation	-	-	5	126	19	150
As at 31 March 2009	**238**	**43**	**177**	**670**	**316**	**1,444**
Depreciation						
As at 1 April 2008	-	14	99	301	112	526
Charge for year	9	7	14	89	23	142
Released on Disposals	-	-	(1)	(52)	(19)	(72)
Revaluation	-	-	5	114	10	129
As at 31 March 2009	**9**	**21**	**117**	**452**	**126**	**725**
Net Book Value						
As at 31 March 2009	**229**	**22**	**60**	**218**	**190**	**719**
As at 1 April 2008	195	29	75	241	155	695

Tangible non current assets are carried at fair value using indexation.

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 statement of income. In 2009-2010 the total amount taken to the statement of income as impairment in value was zero (2008-2009; £nil, 2007-2008; £36,412). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

Note 9 (cont'd)

Net movements in respect of depreciation and revaluation of £2,820 (2008-2009; £9,140, 2007-2008; £16,675) have been taken to the Government Grant Reserve.

Non-dwelling long leasehold land and buildings are carried at professional valuation on the basis of existing use value. The valuation was carried out as at 31 March 2008 by Insignia Richard Ellis, Chartered Surveyors in accordance with the RICS Valuation Standards.

10. TRADE AND OTHER RECEIVABLES

a. Analysis by Type

	At 31 March 2010 £'000	At 31 March 2009 £'000	At 1 April 2008 £'000
Trade receivables	2,382	3,008	2,270
Other receivables	33	132	84
Prepayments	242	251	181
Accrued income	508	152	335
Total	3,165	3,543	2,870

The Agency has no receivables due after more than one year, except for salary advances of which £3,055 (2008-2009; £40, 2007-2008; £1,981) is due after one year.

b. Intra Government Balances

	At 31 March 2010 £'000	At 31 March 2009 £'000	At 1 April 2008 £'000
Balances with other central government bodies	843	1,016	708
Balances with bodies external to government	2,322	2,527	2,162
Total	3,165	3,543	2,870

11. CASH AND CASH EQUIVALENTS

	At 31 March 2010 £'000	At 31 March 2009 £'000	At 1 April 2008 £'000
OPG balance	1,592	1,707	1,668
UK current account	816	992	233
Cash in hand and at other banks	1,039	885	1,293
Total	3,447	3,584	3,194

12. TRADE AND OTHER PAYABLES

a. Analysis by Type

	At 31 March 2010 £'000	At 31 March 2009 £'000	At 1 April 2008 £'000
Amounts falling due within one year			
Trade payables	8	160	3
VAT	62	125	137
Other payables	463	1,443	1,496
Accruals	1,195	726	571
Deferred income	610	588	786
Total amounts falling due within one year	2,338	3,042	2,993
Included in other payables are:			
Deposits from manufacturers	259	228	229

The accruals balance at 31 March 2010 includes £141,619 (2008-2009; £9,687, 2007-2008; £109,526) in respect of VCA's March 2010 payroll cost due to DfT. Also included in accruals as at 31 March 2010 is the holiday pay accrual of £210,086 (2008-2009; £162,869, 2007-2008; £141,945) as required by IAS19. There are no payables balances falling due after one year.

Note 12 (cont'd)

b. Intra Government Balances

	At 31 March 2010 £'000	At 31 March 2009 £'000	At 1 April 2008 £'000
Balances within other central government bodies	**406**	1,370	1,542
Balances with bodies external to government	**1,932**	1,672	1,451
Total	**2,338**	3,042	2,993

13. PROVISIONS

	Early Retirement £'000	**Other Provisions £'000**	**Total £'000**
Balance at 1 April 2009	**31**	**997**	**1,028**
Provisions added in the year	**-**	**53**	**53**
Provisions utilised/released in the year	**(31)**	**(550)**	**(581)**
Balance at 31 March 2010	**-**	**500**	**500**

	Early Retirement £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2008	53	237	290
Provisions added in the year	-	760	760
Provisions utilised/released in the year	(22)	-	(22)
Balance at 31 March 2009	31	997	1,028

There are no Early Retirement Provision or other provisions estimated to be due after more than one year (2008-2009; nil, 2007-2008; £9,374). Other provisions of £499,934 (2008-2009; £997,244, 2007-2008; £237,192) are in relation to overseas allowances, UK expenditure and additional checks to be carried out in next financial year. The provisions have been calculated using in accordance with IAS 37 using 2009-2010 costs and current Government rates where applicable.

14. a. RECONCILIATION OF REVALUATION RESERVE
For the year ended 31 March 2010

	Software Licenses	**Software Application**	**Furniture & Fittings**	**Information Technology and Office Equipment**	**Plant & Machinery**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 April 2009	**-**	**-**	**9**	**3**	**23**	**35**
Surplus on revaluation of non current assets	**18**	**65**	**(1)**	**96**	**3**	**181**
Backlog depreciation of re-valued non current assets	**(6)**	**(26)**	**(1)**	**(46)**	**(1)**	**(80)**
As at 31 March 2010	**12**	**39**	**7**	**53**	**25**	**136**

Note 14 (cont'd)

b. RECONCILIATION OF REVALUATION RESERVE
For the year ended 31 March 2009

	Software Licenses	Software Application	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2008	-	-	7	3	13	23
Surplus on revaluation of non current assets	-	-	5	6	20	31
Backlog depreciation of re-valued non current assets	-	-	(3)	(6)	(10)	(19)
As at 31 March 2009	-	-	9	3	23	35

c. CHANGES IN EXCHANGE RATE MOVEMENTS
For the year ended 31 March 2010

Net Exchange Rate Movements	**2009-2010**	2008-2009
	£'000's	£'000's
Balance as at 1 April 2009 / 2008	**722**	(143)
Movements in Year	**(11)**	865
Balance as at 31 March 2010 / 2009	**711**	722

The opening balance as at 1 April 2008 relates to historical net movements up to the financial accounting year 2007-2008.

15. **CAPITAL COMMITMENTS**

The Agency has capital commitments for tangible non current assets of £20,508 (2008-2009; £5,927: 2007-2008; £25,720) as at 31 March 2010.

16. **COMMITMENTS UNDER LEASES**

The Agency has commitments under operating leases as follows:

	31 March 2010 £'000	31 March 2009 £'000
EXPIRING:		
Land and buildings - within one year	**247**	308
Land and buildings - in second to fifth years inclusive	**843**	874
Land and buildings - over five years	**237**	479
Total	**1,327**	1,661

Total rentals for 2009-2010 of £333,409 (2008-2009; £307,506) were charged to the statement of income. At present there are no finance leases.

17. **CONTINGENT LIABILITIES**

There is a contingent liability of £381,000 as at 31 March 2010 (31 March 2009; nil) which relates to additional work that may be required in relation to work carried out during 2009-2010 and which at present cannot be reliably estimated.

18. RELATED PARTY TRANSACTIONS

VCA is an executive agency of the DfT.

The DfT, of which the MFS 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 2009-2010 from the Department was £2,455,570 (2008-2009; £2,644,799). In addition VCA received sales income from BIS/DEFRA of £1,949,374 (2008-2009; £1,983,745). VCA repaid cash advances to the DfT of £1,000,000 (2008-2009; nil)

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.

19. FINANCIAL INSTRUMENTS

a. Nature and Extent of Risks arising from Financial Instruments.

VCA does in many respects face the same degree of exposure in respect of receivables that many commercial businesses do, however, it does not face the same level of financial risk in respect of loans. In addition financial assets and liabilities generated by day-to-day operational activities are not linked to long term credit facilities. The Agency's main financial assets and liabilities have either a nil or notional fixed rate of interest related to the cost of capital of 3.5% (2008-2009 3.5%). The short-term liquidity and interest rate risks are therefore slight.

Financial Assets by Category	**At 31 March 2010**	At 31 March 2009
Loans and receivables:	**£'000**	£'000
Cash In hand & at Bank	**3,447**	3,584
Trade receivables	**2,382**	3,008
Other receivables	**33**	132
Accrued income	**508**	152
Total	**6,370**	6,876

Financial Liabilities by Category	**At 31 March 2010**	At 31 March 2009
Financial liabilities measured at amortised cost:-	**£'000**	£'000
Trade payables	**8**	160
Other payables	**463**	1,443
Accruals	**1,195**	726
Total amounts falling due within one year	**1,666**	2,329
Included in other payables are: Deposits from manufacturers	**259**	228

b. Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Agency's customers or counterparties fail to fulfil their contractual obligations to the Agency.

The majority of debtor balances with bodies external to government relate to balances with entities in the automotive industry for Product Certification and Management System Certification.

The Agency seeks to mitigate the risk of default from Receivables by maintaining Pre-fund Creditor accounts for customers purchasing Submacs (Individual Type Approval Certificates) and transferring the cash from the Creditor Account to the Debtor Account, as and when invoices are raised.

In the case of all other external debtor accounts, the customer is requested to complete an Agency Application Form providing two external trade references. Prior to providing the service credit checks are obtained from an External Agency by VCA's Credit Control Section which carries out the monitoring and chasing of outstanding balances on a regular basis as part of the Agency's credit control procedures.

The Agency has no significant prepayment arrangements in place. Extending credit and making prepayments places funds at risk, and therefore, stringent controls on the formal writing off of debts are required, to ensure that all effort is made to collect debts from the counterparty.

Note 19 (cont'd)

For the purposes of the Agency's disclosures regarding credit quality, its financial assets have been analysed as follows:-

Financial assets subject to credit risk — **At 31 March 2010**

	Neither overdue nor individually impaired	Overdue but not individually impaired	Individually impaired	Total	Impairment Allowance	Total carrying value
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	3,447	-	-	3,447	-	3,447
Trade receivables	2,270	573	170	3,013	631	2,382
Other receivables	33	-	-	33	-	33
Accrued income	508	-	-	508	-	508
Total	6,258	573	170	7,001	631	6,370

The Agency has £843,374 Intra Government account receivable balances included in Financial Assets. Assets individually impaired represent balances subject to insolvency procedures. The impairment allowance has been calculated on both a geographic basis and age basis against specific debts and is the sum of all individual balances overdue for payment by at least 180 days, across the UK, USA, Japanese and Australian sales ledgers.

Financial assets that are overdue but not individually impaired — **At 31 March 2010**

	Overdue 2-3 months	Overdue 3-4 months	Overdue 4 months and over	Total
	£'000	£'000	£'000	£'000
Trade receivables	388	74	111	573
Total	388	74	111	573

Reconciliation of Bad Debt Provision	2009-2010	2008-2009
	£'000	£'000
Balance at 1 April 2009	828	188
UK (reductions)/additions	(212)	409
USA additions	47	162
Japan (reductions)/additions	(32)	69
Balance at 31 March 2010	631	828

c. Liquidity Risk

Maturity of financial liabilities — **At 31 March 2010**

	On Demand	Not more than 3 months	Over 6 months but not more than 1 year	Total
	£'000	£'000	£'000	£'000
Trade payables	-	8	-	8
Other payables	257	206	-	463
Accruals	-	1,195	-	1,195
Total	257	1,409	-	1,666

Note 19 (cont'd)

This is the risk that the Agency is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. As the Agency is a government organisation, this risk is thought to be negligible. Short-term liquidity is managed by the draw-down of funds from VCA's Office of the Paymaster General Account. Government manages liquidity by requiring departments to provide cash flow forecasts.

d. Foreign Currency Risk

The Agency is exposed to foreign currency fluctuations on its cash balances, trade receivables and trade payables.

Total financial assets by currency		At 31 March 2010		
	UK	USA	Japan	Australia
	£'000	$'000	Yen '000	AUD'000
Cash at Bank and in hand	2,422	470	84,927	190
Trade receivables	1,905	430	25,752	14
Other receivables	33	-	-	-
Accrued income	283	144	18,362	-
Totals	4,643	1,044	129,041	204
Closing sterling exchange rate	-	1.5169	141.739	1.6527
Converted £'000	4,643	688	910	123

The USA represents 12.5% of the total outstanding debtor balance and Japan represents 10.7% of the total outstanding debtor balance. The Agency's financial performance is subject to movements in exchange rates, these are migrated and by matching local expenditure with local income wherever possible in local currencies.

Total financial liabilities by currency		At 31 March 2010		
	UK	USA	Japan	Australia
	£'000	$'000	Yen '000	AUD'000
Trade payables	8	-	-	-
Other payables	366	120	2,613	-
Accruals	1,056	125	8,031	-
Totals	1,430	245	10,644	-
Closing sterling exchange rate	-	1.5169	141.739	1.6527
Converted £'000	1,430	162	75	-

Note 19 (cont'd)

e. Exchange Translation Risk

The matrix below shows the effect a 10% decrease or increase in the closing rate value of Sterling will have on the valuation of overseas financial instruments.

Overseas financial assets by currency	Decrease in Value USA $'000	Decrease in Value Japan Yen'000	Decrease in Value Australia $'000	Actual Rate USA $'000	Actual Rate Japan YEN'000	Actual Rate Australia AUD'000	Increase in Value USA $'000	Increase in Value Japan Yen'000	Increase in Value Australia AUD'000
Cash Balances	470	84,927	190	470	84,927	190	470	84,927	190
Trade receivables	430	25,752	14	430	25,752	14	430	25,752	14
Accrued Income	144	18,362	-	144	18,362	-	144	18,362	-
Total	**1,044**	**129,041**	**204**	**1,044**	**129,041**	**204**	**1,044**	**129,041**	**204**
Closing sterling exchange rate 31 March 2010	**1.3652**	**127.565**	**1.4874**	**1.5169**	**141.739**	**1.6527**	**1.6686**	**155.913**	**1.8180**
Converted £'000	**765**	**1,012**	**137**	**688**	**910**	**123**	**626**	**828**	**112**

Overseas financial liabilities by currency	Decrease in Value USA $'000	Decrease in Value Japan Yen'000	Decrease in Value Australia $'000	Actual Rate USA $'000	Actual Rate Japan YEN'000	Actual Rate Australia AUD'000	Increase in Value USA $'000	Increase in Value Japan Yen'000	Increase in Value Australia AUD'000
Other payables	120	2,613	-	120	2,613	-	120	2,613	-
Accruals	125	8,031	-	125	8,031	-	125	8,031	-
Total	**245**	**10,644**	**-**	**245**	**10,644**	**-**	**245**	**10,644**	**-**
Closing sterling exchange rate 31 March 2010	**1.3652**	**127.565**	**1.4874**	**1.5169**	**141.739**	**1.6527**	**1.6686**	**155.913**	**1.8180**
Converted £'000	**179**	**83**	**-**	**162**	**75**	**-**	**147**	**68**	**-**
Net	**586**	**929**	**137**	**526**	**835**	**123**	**479**	**760**	**112**
Net effect on statement of income	**60**	**94**	**14**	**-**	**-**	**-**	**(47)**	**(75)**	**(11)**

20. FIRST TIME ADOPTION OF IFRS

	General Fund £'000	Revaluation Reserve £'000	Government Grant Reserve £'000
Taxpayers' equity at 31 March 2009 under UK GAAP	4,355	35	3
Adjustments for:			
Holiday pay accrual	(152)	-	-
Taxpayers' equity at 1 April 2009 under IFRS	4,203	35	3

Net surplus for 2008-09 under UK GAAP	261
Adjustments for:	
Holiday pay accrual	(16)
Net surplus for 2008-09 under IFRS	245

Note 20 (cont'd)

	General Fund £'000	Revaluation Reserve £'000	Government Grant Reserve £'000
Taxpayers' equity at 1 April 2008 under UK GAAP	3,793	23	12
Adjustments for:			
Holiday pay accrual	(142)	-	-
Taxpayers' equity at 1 April 2008 under IFRS	3,651	23	12

Net surplus for 2007-08 under UK GAAP	304
Adjustments for:	
Holiday pay accrual	(142)
Net surplus for 2007-08 under IFRS	162

21 EVENTS AFTER THE REPORTING PERIOD

There are no reportable adjusting events after the reporting period that are not reflected in the accounts above. The accounts were authorised for Issue (released to the Secretary of State to lay before Parliament)' on 22 July 2010 by Paul Markwick as Chief Executive and Agency Accounting Officer.

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