



VEHICLE CERTIFICATION AGENCY
An executive agency of the Department for Transport

Annual Report and Accounts
2007 - 2008

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

Ordered by the House of Commons to be printed on 21 July 2008



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CONTENTS

	Page No
CHIEF EXECUTIVE'S FOREWORD	2
INTRODUCTION	3
STRATEGIC OUTCOMES	4-6
2007-2008 TARGETS SET BY THE SECRETARY OF STATE	7-8
MANAGEMENT COMMENTARY AND BUSINESS PERFORMANCE	9-21
REMUNERATION REPORT	22-24
CONTACTING VCA WORLDWIDE	25
FINANCIAL STATEMENTS	i-xviii

CHIEF EXECUTIVE'S FOREWORD

I am delighted to report that In financial year 2007-08, VCA has continued in its upward direction, growing revenues a further 12.3% to £11.4 million over the prior year. This was ahead of our Business Plan target of £10.9 million, resulting in a surplus of £304,000, again ahead of our target. VCA has met all our Secretary of State targets, continuing the excellent performance of the past 2 years, and the Agency is now a viable and sustainable operation within the Department's Safety, Service Delivery and Logistics Group, (SSDL) as well as delivering a variety of enforcement activities for the Department for Business Enterprise and Regulatory Reform (BERR).

Our operations delivered strong results. The Product Approval activities, our core function, grew strongly in all regions. The North American region recorded their strongest performance for some years, as the declining dollar has encouraged export from the USA, thereby demanding European and UN/ECE approvals. Our Chinese operation continues to grow beyond expectations, a further 50% on prior year, with passenger cars now the dominant business sector, taking over from 2 wheeled vehicles. Our other operations in the Asia Pacific region performed well, with new business starting in Australia. The restructuring of our UK Operations, and the progress of the Technical and Quality Support team has underpinned our Product Certification activities, improving quality, responsiveness and efficiency throughout the organisation.

The Product Development and Enforcement team has grown dramatically this year, with the successful transfer of the certification of the packaging of dangerous goods from Pira to VCA, forming a new VCA operation in Leatherhead, and the contract to enforce the Waste Electrical and Electronic Equipment Directive (WEEE) obligations for distributors and the marking of products. VCA has become a centre of competence on distributor and producer enforcement activities both for Department for Transport (DfT) and BERR. Both of these new operations have been successfully implemented and integrated within VCA, with high customer satisfaction, operating effectively and efficiently, with both likely to develop further in the near future.

Investment in knowledge and capability has been increased this year, as we continue to deliver high levels of technical service, with quality and integrity, hallmarks of the VCA Brand. We have also invested in our infrastructure, improving the working environments at our Bristol HQ, and Midland Centre, as well as increasing the capability of our ICT system internationally, and adding further resilience to improve reliability. Data management and security has become increasingly important to Government, and VCA has operated effectively, with no loss of personal or commercial data.

In summary, VCA has delivered all its commitments to SSDL, Department and external customers, generating a sound financial basis for a sustainable Agency, and we can look forward to an exciting future.

A handwritten signature in black ink, appearing to read 'Paul Markwick', written over a horizontal line.

Paul Markwick
Chief Executive



INTRODUCTION

- VCA is an executive agency of the Department for Transport (DfT) and an integrated part of the Safety, Service Delivery and Logistics Group (SSDL), supporting the delivery of the Group Vision and Strategic Outcomes. VCA is an important link in the network, supplying information for the downstream services of other agencies within the Group.
- VCA is the UK Type Approval Authority for new on and off-road vehicles, systems and components, responsible for approving that these 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 DfT agencies. The Agency also conducts a range of enforcement activities on behalf of DfT and Department for Business Enterprise and Regulatory Reform (BERR).
- VCA takes its policy lead from DfT centre and the SSDL Group, in particular Road and Vehicles Safety Standards (RVSS), Dangerous Goods Branch (DGB) and Cleaner Fuels and Vehicles (CFV). VCA works closely with colleagues in policy departments, bringing real time industry and technical knowledge.
- 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 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 road killed and seriously injured (KSIs), and reducing the damaging environmental effects arising from transport through Type Approval compliance.
- DfT appointed VCA with effect from 1st April 2007 as 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.
- The VCA published database of CO₂ emissions from passenger cars underpins the graduated Vehicle Excise Duty (VED), Company Car tax schemes and the Act on CO₂ Campaign. The VCA web site is one of the most visited government sites, receiving more than 48 million hits per year, supporting the Governments' strategic drive towards the reduction in CO₂ emissions.
- VCA chairs the Vehicle Technology Forum on behalf of SSDL, working with DfT policy leads, other DfT agencies and the Chief Scientific Advisors 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.



STRATEGIC OUTCOMES

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

The VCA strategic outcomes are described as: -

Effective Services to Customers

- By providing approval, certification, related services and advice.
- By adding value, responding to the needs of industry and government on price, speed, flexibility and effectiveness.
- By working with other parts of the SSDL group and VCA's worldwide partners to help ensure that services are delivered in a seamless, integrated and innovative fashion.
- By developing tools and techniques to support the emerging technologies including virtual testing, and electronic engineering.
- By operating in real time when and where customers require.
- By improving access for automotive and component manufacturers to VCA products and services through expanding its global presence.
- By providing high quality and consistent Type Approval interpretations from all VCA offices.

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 BERR 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.



Improved Journey Reliability on the Road

- 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, thus not only reducing KSI's but also congestion.
- By supporting DfT in the certification of bus lane enforcement camera systems.
- By supporting DfT on the development of emerging technologies for road user charging.

Better Regulation

- By investigating the industry developments of digital and virtual techniques, and their potential for virtual type approval technologies. Thereby supporting the industry needs to improve vehicle design, safety and reliability and to reduce engineering costs and product time to market.
- By developing expertise and capability in electrical and software engineering, reflecting the rapid increase in electronics and functionality in new vehicle technology.
- By supporting the implementation project for the Recast EC Type Approval Framework Directive (RFD). The project objective is to deliver the RFD in such a way as to ensure high levels of safety and environmental protection whilst minimising burdens for UK manufacturers and operators.

Tackling Environmental Damage

- By enforcing European Directives for road vehicles on gaseous emissions and noise.
- By conducting emissions testing on in-service passenger cars up to 3 years old, in support of the Type Approval regulations.
- By publishing CO₂ data on VCA's fuel consumption web site and improving awareness.
- By supplying CO₂ 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 supporting DfT with the development of the Renewable Transport Fuels Obligation (RTFO) scheme for introduction during 2008.



Better Value for Money

- By continuously improving effectiveness and efficiency through the Value for Money plan, recovering costs taking one year with another and meeting financial and performance targets set by the Secretary of State.
- 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 across the Agency, building on the 6% improvement achieved in the past 2 years.

2007-2008 SECRETARY OF STATE TARGETS

The VCA key performance targets are agreed by the Secretary of State, and support those of the SSDL Group. Having achieved significant progress in 2007-2008, VCA intends to continue along this path in 2008-2009 and beyond, meeting the needs of Government and industry.

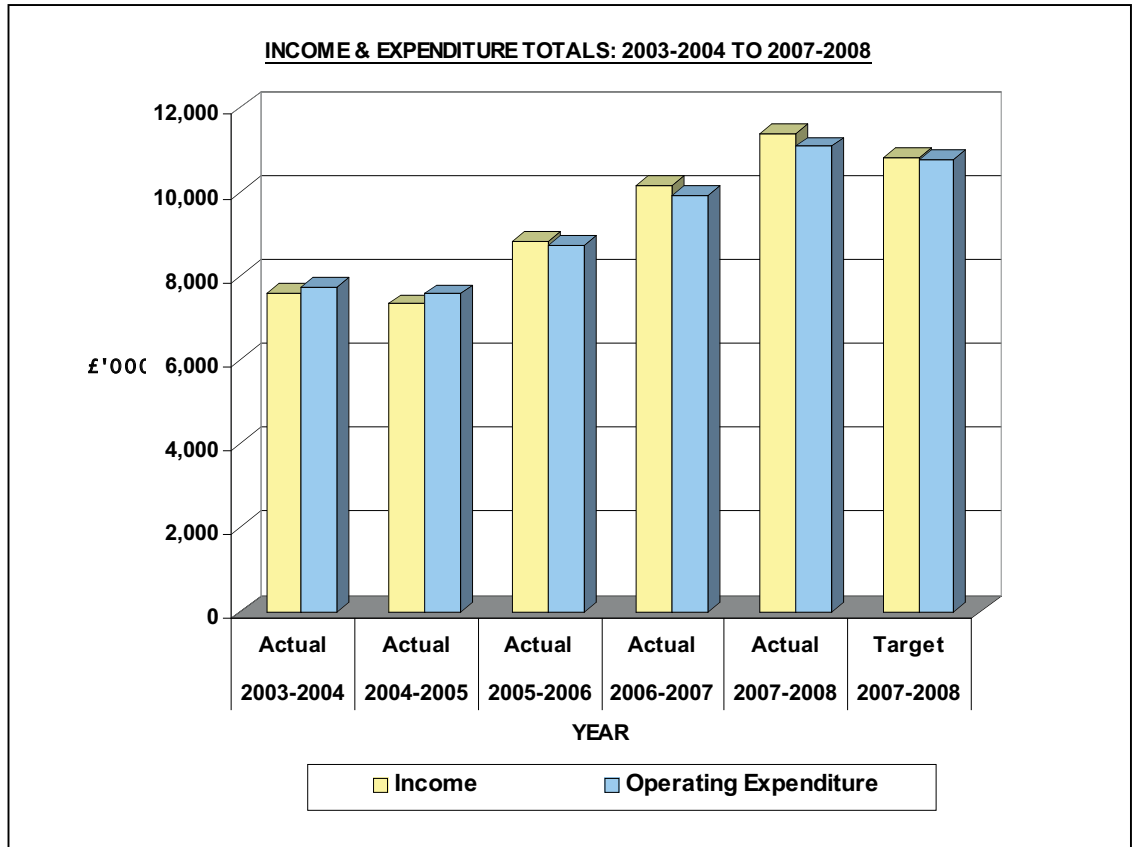
Deliver better services to customers (<i>Customer focus</i>)				
SSDL Target Area	VCA Targets	Measures	Status	Comments
Maintain quality of services	To provide a class-leading service in type approval and certification.	<ul style="list-style-type: none"> 90% turnaround of systems and component type approval certificates within 9 working days. 	Achieved	96%
		<ul style="list-style-type: none"> 95% of appraisal reports on our technical performance from independent panel members deemed to have no critical defects. 	Achieved	
		<ul style="list-style-type: none"> Expand consistency of processes and standards across the global network. 	Achieved	
Maintain customer satisfaction	Maintain (or improve) customer satisfaction levels.	<ul style="list-style-type: none"> Existing customer survey to be run in 2007-2008 and maintain at least 4/5 score (Very Good). 	Achieved	Final result of 4.4

Deliver better outcomes for citizens (<i>Citizen focus</i>)				
SSDL Target Area	VCA Targets	Measures	Status	Comments
Improving road safety	To ensure the continued integrity of VCA's approvals.	<ul style="list-style-type: none"> Carry out a programme of Conformity of Production inspections. 	Achieved	
	Target new emerging manufacturing markets to ensure that products fully meet EU standards	<ul style="list-style-type: none"> Increase number of certificates issued by VCA in China and India by 10% over 2006-07. 	Achieved	Increase of 16%
	To monitor compliance of safety critical vehicle systems and components in the UK marketplace to meet EU standards	<ul style="list-style-type: none"> Complete the test programme to be agreed with Road and Vehicles Safety Standards (RVSS) (formerly Technology and Transport Standards (TTS)/ Mobility and Inclusion Unit(MIU)), and Cleaner Fuels and Vehicles (CFV) 	Achieved	

Deliver better outcomes for citizens (<i>Citizen focus</i>) – Continued				
SSDL Target Area	VCA Targets	Measures	Status	Comments
Improving road safety	Delivery of recommendations made in the VCA/TTS report on the use of virtual tools.	<ul style="list-style-type: none"> • Delivery in Q1 of final VCA/TTS report. • Identify VCA tools and techniques by December 2007. • Formulate forward programme by December 2007. 	Achieved	
	To carry out and enforce an annual programme of in-service emissions	Complete programme by March 2008.	Achieved	

Deliver better value for money (<i>Tax and fee payers focus</i>)				
SSDL Target Area	VCA Targets	Measures	Status	Comments
Increase staff productivity	Improve utilisation year on year.	<ul style="list-style-type: none"> • Increase utilisation by an additional 2% points. i.e. 60% by 31 March 2008. 	Achieved	63%
Delivery efficiency review targets	To achieve a surplus on a full cost basis and deliver benefits consistent with the Value for Money plan.	<ul style="list-style-type: none"> • To achieve £50k surplus on a full cost basis. 	Achieved	£304k
		<ul style="list-style-type: none"> • £450k of cost savings and efficiency and effectiveness improvements. 	Achieved	£530k
		<ul style="list-style-type: none"> • Invest £100k in professional skills and capability development. 	Achieved	£119k

PERFORMANCE AGAINST BUSINESS TARGETS



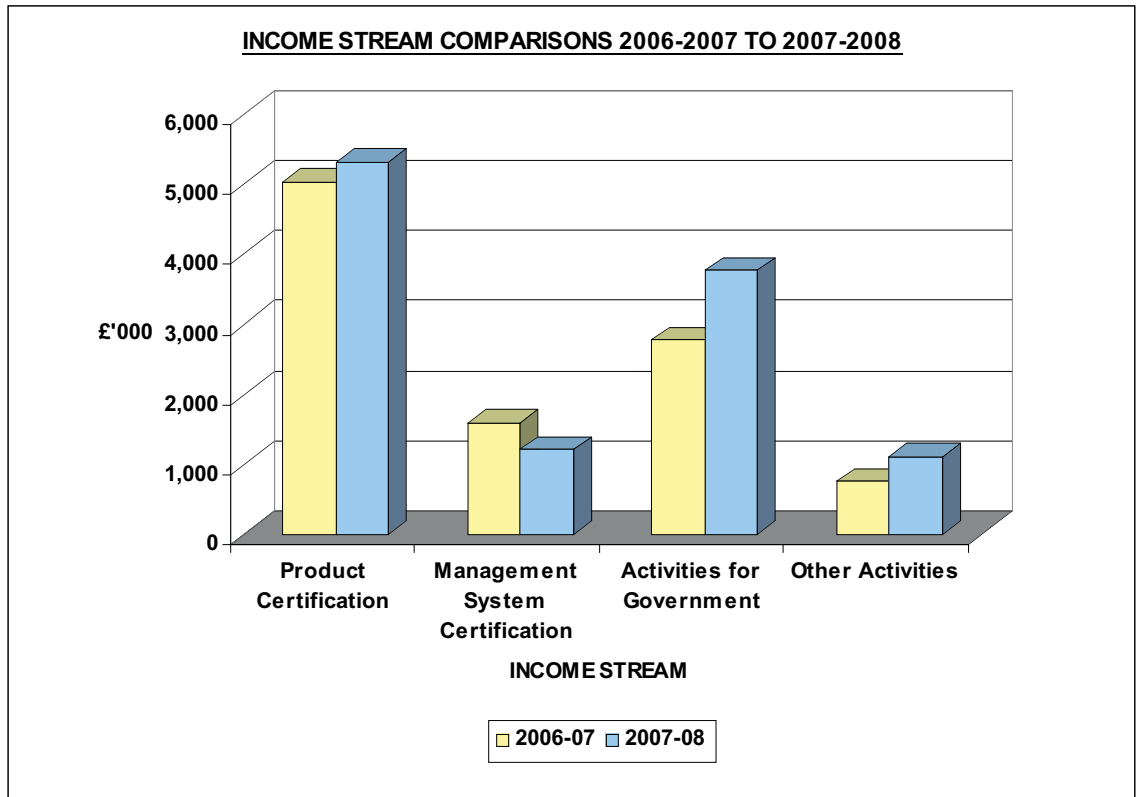
- In 2007-2008 VCA was funded on the DfT, RfR1 (Request for Resources) as a net programme cost body. It is required to cover its costs from income received. In 2007-2008 VCA's key financial target was to achieve a £50,000 surplus on a full cost basis; this was exceeded by £254,000 to a £304,000 surplus (£91,000 surplus 2006-2007). The operating surplus (including translation gains/losses on exchange) improved from £220,000 in 2006-2007 to £431,000 this year. Overall our retained operating surplus has now exceeded £1m as the table below shows.

	2003-2004 Actual	2004-2005 Actual	2005-2006 Actual	2006-2007 Actual	2007-2008 Actual	2007-2008 Target (Business Plan)
Income	£7.59m	£7.33m	£8.82m	£10.15m	£11.39m	£10.82m
Expenditure	£7.65m	£7.53m	£8.75m	£9.79m	£11.07m	£10.77m
Operating Surplus/ (Deficit)	(£0.06m)	(£0.20m)	£0.07m	£0.36m	£0.32m	£0.18m
Cumulative Operating Surplus	£0.48m	£0.28m	£0.35m	£0.71m	£1.03m	£0.89m

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

- As in previous years we have measured our operating performance after adjusting for translation gain/loss on exchange and early retirement provision (table above) for year on year comparison.
- Overall income from all our commercial activities increased by over 12% year on year.

- Total net assets increased by 13% (£546,000) due to an increase in cash balances and tangible fixed assets, despite an increase in creditors and provisions for liabilities and charges. Overall debtors decreased by £531,000, however, accrued income was reduced by £14,000 and trade debtors fell by £581,000 due to invoicing Central Government bodies before year end, improved invoicing and credit control processes.



- **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% in income over 2006-2007. In particular, China and USA showed growth of 36% and 28% respectively.

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 of 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 decreased by 24% globally (22% after adjusting for exchange rate fluctuations) resulting in a negative contribution of £192,000 against a positive contribution of £30,000 in 2006-2007.

The significant decrease in revenue is due in the main to a number of factory closures and a change in quality methodology at two of our key clients. We have been successful in securing new clients, but insufficient to offset the drop in activity levels. Price pressures continue within the market especially from some of our major customers. Although the income levels have fallen, we have reduced our costs, but insufficiently to recover the margin in this financial year. Our investment in business development, restructuring and systems are targeted to build on our progress.

- **Activities for Government.** An increase of £995,000 (36%) was recorded over 2006-2007. This was largely due to the WEEE enforcement work for BERR and technical consulting services to Dangerous Goods (DG) and CFV branches of DfT. Income from Government work as a percentage of total has risen to 33% compared with 27% in the prior year.



- **Business Opportunities.** The automotive climate continues to offer good business opportunities for VCA despite high levels of competition. The agency is currently heavily involved in the education campaign and integration programme for the new framework directive for European Community Whole Vehicle Type Approval, which will put new and in some cases more stringent demands on various sectors within the automotive market. This offers VCA the opportunity to expand its market share within both Product and Management Systems Certification. In addition the rapid globalisation of the industry supports VCA strategy and offers VCA the opportunity to enter emerging markets such as Turkey, Russia and others within the former Eastern block. This together with VCA's reputation for delivering a high quality service with the integrity of a UK Government Agency offers further prospects for growth.
- **Business Risks.** The potential risks facing VCA are the same as with many commercial organisations operating in a global environment, such as communication issues, culture, bad debt and currency fluctuation risks. Also ensuring that VCA's high standards and reputation remain our top priority whilst still maintaining steady market growth. Amongst other things, the Technical & Quality Support Branch was created during 2006-2007 and has helped to mitigate this specific risk.
- **Future Direction.** The development of a 10 Year Vision and business plan and the progress to date has reinforced the decision made in 2003 that VCA is a viable and valuable Agency within DfT. Subsequent reviews by the Department in 2005-2006 and 2006-2007 have also confirmed this view. Further investment will continue particularly in technical competencies and overseas facilities so that the positive financial return achieved this year will be sustained.
- **Research and Development.** VCA has continued to invest in knowledge and understanding in the emerging technologies in vehicle engineering. Particular emphasis is currently placed on digital (virtual) testing, and new electronic devices.
- **Management Board.** The Management Board's members (MBM) during 2007-2008 were:

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

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



- **Executive Management Board.** The role of the Executive Management Board is to advise the Secretary of State on the strategic and business plans of the Agency and on the Agency's performance against the objectives and targets set therein. The Chief Executive reports on the performance and operations of the Agency by means of quarterly reports. The Board's members during 2007-2008 were:

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

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

- **Bonus Scheme.** The Agency operates a group incentive bonus scheme that enables all eligible staff to benefit from increased efficiency. The trigger for the payment in 2007-2008 of a bonus is a surplus on the Income and Expenditure Account in excess of the published Business Plan target. Achievement of the range of service and quality targets is also necessary for payment of the maximum bonus. In 2007-2008 all targets have been achieved and £163,965 is included within the accounts for distribution.
- **Payments to Creditors.** VCA participates in the Departmental scheme for the payment of invoices. This follows the Treasury Prompt Payment Initiative, copies of which can be obtained from the Agency's headquarters. It is VCA's policy to pay undisputed invoices within 30 days of receipt. VCA measures its performance by reviewing all invoices paid, the Agency achieved 99.08% (98.18% 2006-2007) of invoices paid within 30 days of receipt in 2007-2008.
- **Pension.** Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in the Financial Accounts, Notes 1(h) and 5(c).
- **Audit.** Audit fees charged in the accounts amount to £37,000 (£35,800 2006-2007).



SUMMARY OF BUSINESS OBJECTIVES AND ACHIEVEMENTS

Effective Services to Customers

- With the Recast Framework Directive for EC Whole Vehicle Type Approval (ECWVTA) introducing new sectors to Type Approval, VCA has worked with the Department, Vehicle Operator and Services Agency (VOSA) and Trade Bodies to inform the industry of the implications of the changes, and to help prepare industry ahead of the implementation.
- DfT appointed VCA, with effect from 1st April 2007, as the administrator for the approval of packages for the carriage of dangerous goods.
- VCA's China office has continued to grow with increasing demand for type approval services from manufacturers mainly in the passenger car sector. The income for the year was £836,000 with the office now at ten type approval engineers. This is now our largest overseas Type Approval Office.
- The Technical and Quality Support Branch has increased its service activities internally within the Agency, and to the Department, providing a level of technical and quality support service underpinning the integrity of the Agency. This branch is also expanding the regulatory information services to support the harmonisation of global technical regulations for the automotive industry.
- Having signed a Memorandum of Understanding with The National Automotive Testing and Research & Development Infrastructure Project (NATRiP) to approve the new testing facilities for international type approval testing, and to train and develop expertise in India, VCA India inspected and approved the first of the new testing facilities at I-Cat near Delhi.
- Achieving accreditation from the Taiwan Authorities for testing to Taiwan standards.
- Customer satisfaction improved on last year with an overall rating of 4.4 out of a maximum of 5.
- The re-launch of MSC external training targeting primarily automotive clients.
- The launch of the Acorn environmental Quality Standard with the support of BERR has introduced SME's to the benefits of improved environmental performance. VCA was accredited to this new Standard in early 2008 and has supported a number of new clients.
- Following the appointment of VCA as the UK administrator for the UN package certification scheme, customer satisfaction levels have been maintained.



Improved Road Safety

- Preparatory work for the introduction of the revised framework directive for the approval of motor vehicles and trailers (ECWVTA) has continued through the year. VOSA, DVLA and VCA are working together on the implementation project. VOSA is the lead agency for the project. The first mandatory approvals will be required from April 2009 for passenger vehicles, followed over the next 5 years, by new and existing types of trailers and lorries.
- 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.
- VCA increased the level of certification in China by 16% in 2007-2008 compared with 2006-2007.
- VCA invested in knowledge development in Virtual Approval technologies and electronics. VCA participated in research projects at the International Automotive Research Centre with Warwick Manufacturing Group (part of Warwick University), aimed at increasing the UK automotive innovative capability.

Improved Journey Reliability on the Road

- VCA has been appointed by Traffic Management Division of DfT and is active in this field by accreditation of bus lane enforcement camera systems.
- Supported DfT through our knowledge development in the field of emerging technologies for road user charging.
- Further developed our knowledge and capability in virtual testing and strengthened our technology base.

Better Regulation

- VCA has continued to invest in capability and knowledge of emerging technologies in vehicle engineering. Particular emphasis is currently placed on digital (virtual) testing, and new electronic devices.
- Supported the implementation project for the Recast EC Type Approval Framework Directive (RFD). The project objective is to deliver the RFD in such a way as to ensure high levels of safety and environmental protection whilst minimising burdens for UK manufacturers and operators.

Tackling Environmental Damage

- Supported the reduction in harmful gaseous emissions through the Type Approval schemes.
- Enforcement of European Directives for road vehicles on gaseous emissions, CO₂ and noise.
- Enforcement of Non Road Mobile Machinery (NRMM) for noise and gaseous emissions.
- The agreed programme of in-service emissions tests of 40 vehicle tests (passenger cars) commissioned by the DfT was completed.
- VCA supported DfT with the Renewable Transportation Fuels Obligation accreditation scheme, and the new organisation and certification process design.



- Successful launch into the environmental, waste and utilities sectors in line with the management systems strategy.
- Enforcement of the Waste electrical and electronic equipment directive for retailers and distributors on behalf of the SoS BERR
- Sales of the Point of Sale (POS) software increased during 2007-2008, with the benefit of the fuel consumption and CO₂ emissions becoming more visible to consumers.
- Act on CO₂ Campaign – VCA supplies information on CO₂ and fuel consumption to assist in the selection of environmentally friendly vehicles.
- The New Car Fuel Consumption Data website generated 48 million hits during 2007-2008 highlighting the impact of the Governments environmental awareness campaigns.

Better Value for Money

- Significant gains in efficiency and effectiveness have already been realised (outlined below) as well as meeting our productive utilisation target.
- Productivity - £109,000 realised
- Procurement - £79,000 realised
- Back Office - £342,000 realised

Total in year £ 530,000 of which £237,000 represents effectiveness savings, the remainder £293,000 being cash releasing efficiency gains.



REVIEW OF AGENCY DEVELOPMENTS

Data and Data Security

- 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. 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. The staff are periodically reminded of the importance of protecting this data. To protect loss of this data through loss or theft of laptops, VCA has decided to encrypt the hard discs of all laptops to the UK National Technical Authority on Information Assurance (CESG) approved standards.
- VCA's Data Protection Officer is carrying out a review of what, if any, personal data is held or processed locally within the business units, in order to set up a central register and issuing specific guidance on its protection where necessary. However, all staff have been reminded that the personal data must be processed in accordance with the requirements of the Data Protection Act and the data protection principles set out under it. Revised procedures for reporting breaches of information security, actual or suspected have been issued.
- VCA is currently going through the accreditation of its ICT systems and network and laptop builds. The security procedures conform to standards. The VCA Board has also reviewed and approved Information Risk and Security Policy.
- VCA are actively taking forward actions coming out of the Cabinet Office review of Data Handling across Government including the appointment of a Senior Risk Information Officer at Board level.

Finance and ICT

- VCA further improved the remote access facility for mobile staff by issuing 3G broadband modems to most mobile staff. This allows travelling officers to access on demand their e-mails, time to job details as well as to maintain the management information system (MIS).
- Microsoft Office upgraded to Office 2003 to enable better integration with VCA overseas offices.
- Work is progressing to improve the security of laptops through installation of software firewall in advance full accreditation.
- A new Asset & Inventory system installed and implemented for better management of ICT assets.
- Mobile phone contract reviewed and changed to give better value for money.
- ICT resilience and communications bandwidths have further been improved to all the VCA site facilities including overseas. This has enabled better usage of all systems and sharing of data, including SharpOWL, and other management information systems, benefits are already being realised and are included in our VFM savings.

Personnel Management

- The Agency's Personnel Management team has taken forward a number of new issues, driven by the Government's modernisation agenda, our own business needs and involvement with the Department. Areas of particular note are:
 - Successful Investors in People re-assessment;
 - Further round of the VOSA/VCA/TTS Graduate Engineering Scheme, and progression to permanent positions from the scheme;
 - Production of a range of Diversity Action Plans such as Disability, Gender and Race and undertaking equality impact assessments;



- Updated Agency benefits and rewards information;
 - Refreshing the Agency's staff suggestion scheme through the introduction of an e-log system to capture staff ideas; and
 - Taking forward the issues arising out of the 2007 staff survey, including the compilation of an Action Plan; and
- 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 26 new starters, of which 19 were Male, 7 Female. The average number of Civil Service Full Time Equivalents (FTE's) in 2007-08 was 121.

Staff Development

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

Working Environment

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

Customer Service

- Our close regular consultation with the motor industry was continued through our Type Approval Liaison Committee (TALC) meetings with the Society of Motor Manufacturers and Traders (SMMT). We also attended similar liaison meetings hosted by DfT, the Vehicle Importers Homologation Group, and the SMMT's Joint Engineering Committee (with DfT and BERR).
- We continued the independent review of VCA's Type Approval work.
- Closer links have been forged with Technology and Transport Standards (TTS) and Cleaner Fuels and Vehicles (CFV) policy engineers. VCA staff pro-actively offer advice and support on significant issues. Joint VCA/TTS Heads of Branch meeting now held.



Environmental Policy

- The Agency takes its environmental responsibility seriously and is accomplished via our Greening and Sustainability Policies. This is based on DfT and industry best practice guidelines. Areas to note include:
 - Production of Agency Sustainability Development Plan and the formation of focus groups to take forward targets and suggestions; 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, and has published an Action Plan covering amongst other things building and vehicle emissions, water consumption and recycling. 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 vehicles, so that purchasers may make an informed choice when purchasing new 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 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 will be a reduction in emissions given the production of cleaner and safer vehicles;
 - Developing knowledge of sustainable vehicle emission technology developments and sharing this knowledge across the Department, working closely with the CFV;
 - 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.
- 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
 - Mainstreaming diversity in the business
- All staff within the Agency attend diversity and bullying and harassment awareness courses as part of VCA's induction training plus refresher courses where appropriate.
- The Agency has a Race Equality Scheme, Disability Action Plan and Gender Equality Scheme in place and is carrying out Equality Impact Assessments for its policies and processes. VCA also seeks staff views through regular staff surveys



Social/Community Issues

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

Total Quality

- Further investment continued in VCA's Technical & Quality Support Branch which was created during 2006-2007. This Branch grew out of the recognition that our global expansion had to be supported by a more robust control of technical competence and internal quality, and by the timely provision of technical and policy advice to operational offices.
- Staff concerned with technical interpretations, technical training, type approval policy, conformity of production control, internal quality, and external accreditations, including the VCA Quality Manager, were brought together in this Branch with a focus on internal customer service.
- The operational aspects of our MSC work, which are also audited internally by VCA, are overseen by the United Kingdom Accreditation Service (UKAS) and International Automotive Task Force (IATF).



Business Plan Key Performance Indicators

	No. of Targets	Achieved	Not Achieved
TYPE APPROVAL			
Turnaround of Type Approval Certificates	3	3	0
Median time taken to issue corrected type approval certificates.	1	1	0
% of appraisal reports on our technical performance from independent panel members deemed to have no critical defects.	1	1	0
Internal Quality	5	5	0
MANAGEMENT SYSTEM CERTIFICATION			
External Service and Quality	3	3	0
Internal Quality	3	3	0
OTHER TARGETS			
Sales invoice quality and collection	3	2	1
% of invoices on VCA paid within 30 days	1	1	0
Sickness days	1	1	0
TOTAL ALL TARGETS	21	20	1
PERCENTAGE OF TARGETS ACHIEVED			95%

The percentage of total targets achieved was 95%, compared with 78% in 2006-2007. Type Approval achieved 100% (91% 2006-2007); Management System Certification achieved 100% (67% 2006-2007) and Other Targets 80% (60% 2006-2007).

The above Business Plan Key Performance Indicators are not subject to audit.

- Most of our targets and indicators are designed to ensure we deliver the service customers and stakeholders need (as indicated and borne out by surveys and consultation). All of the direct customer-facing targets were met. The results are shown in this report above under Total Quality
- In so far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.



PAUL MARKWICK
Chief Executive and Accounting Officer
8 July 2008

CHIEF EXECUTIVE OFFICER - Remuneration and Performance

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

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

In reaching its 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.



Remuneration of Chief Executive and Management Board Members

Name and title	Salary	2007-2008					2006-2007
		Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31 March 2008 and related lump sum	Restated Cash Equivalent Transfer Value at 31 March 2007	Cash Equivalent Transfer Value at 31 March 2008	Real increase in Cash Equivalent Transfer Value	Salary
		£000	£000	£000	£000	£000	£000
Mr P Markwick	110-115	0-2.5	6.7	75	108	17	105-110
Mr R Brayfield	60-65	0-2.5	54.1	261	309	12	60-65
Mr J Bragg	60-65	-	-	-	-	-	50-55
Mr A J Buckle	55-60	2.5-5	72.1	269	323	11	50-55
Mr A Grimm	55-60	0-2.5	80.1	381	443	7	50-55
Mr M Mulvaney	50-55	2.5-5	66.6	270	335	23	50-55
Mr B Perrett	55-60	2.5-5	65.1	266	328	15	50-55
Mr A W Stenning	55-60	0-2.5	80.8	348	407	7	50-55
Mrs P Wilkes	50-55	0-2.5	2.7	20	31	7	50-55
Mr C Border	45-50	0-2.5	77.2	388	452	14	40-45

There has been a change in the method of calculating the Cash Equivalents resulting in the opening figures for 31 March 2007 being re-stated in these accounts.

Additionally there was £7.5-£10k (£0-£2.5k) 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 2008. The total salary of the Chief Executive includes the payment of a bonus relating to the achievement of objectives in respect of the 2006-2007 Financial Year. The total aggregate of all emoluments of the Board was £616,590 representing 10 members (£579,804 2006-2007 representing 10 members). Salaries include gross salaries, bonus payments, but exclude employer pension contributions. No additional fees were received in their capacity as board members nor were any benefits in kind received.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 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 Accounting Officer
8 July 2008



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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) 06/07.

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Director General of the Safety, Service, Delivery and Logistics Division, (SSDL) 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 DVO (now SSDL) Governance Handbook and in "Managing Public Money" (HM Treasury).



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 DVO (now SSDL) Governance Handbook authorised by the Secretary of State for Transport and this defines the Agency's operating and financial accountability and responsibility.
- An Executive Management 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 2007-2008. The members of the board are the SSDL Director General, TLLS S&R Director, Head of Transport Technology & Standards, Non Executives Directors and the VCA Management Board. The Executive Management Board met on three occasions during 2007-2008.
- VCA participates fully in the SSDL co-ordinated business planning, performance delivery and risk reporting systems.

The purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve targets, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of VCA targets, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in VCA for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to Handle Risk

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



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. The staff are periodically reminded of the importance of protecting this data. To protect loss of this data through loss or theft of laptops, VCA has decided to encrypt the hard discs of all laptops to the UK National Technical Authority on Information Assurance (CESG) approved standards.
- VCA's Data Protection Officer is carrying out a review of what, if any, personal data is held or processed locally within the business units, in order to set up a central register and issuing specific guidance on its protection where necessary. All staff have been reminded that the personal data must be processed in accordance with the requirements of the Data Protection Act and the data protection principles set out under it. Revised procedures for reporting breaches of information security, actual or suspected have been issued.
- VCA is currently progressing the accreditation of its ICT systems and network and laptop builds. The security procedures conform to standards. The VCA Board has also reviewed and approved the Information Risk and Security Policy.

Review of Effectiveness

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

• **Management Board**

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

• **Audit Committee**

The Audit Committee is chaired by a non-executive member of VCA's Executive Management Board and comprises the Chief Executive Officer from the Agency and one other non-executive. Representatives from internal and external audit are invited to attend Audit Committee meetings. The terms of reference were reviewed in 2007-2008 and brought broadly in line with those recommended in HM Treasury's Audit Committee Handbook. Internal control, risk management, and audit plans and reports are standing agenda items at the three meetings that take place each year. It was also agreed that the Audit Committee should continue to meet only three times per year as this was considered appropriate for the Agency, although the Audit Committee Handbook states that the Audit Committee should meet four times per year.

• **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. The annual report includes the ARA Audit Manager's independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. The 2007-2008 opinion stated "I can provide substantial assurance that the Vehicle Certification Agency has established risk management, control and governance arrangements that are operating in a generally effective manner. Some minor weaknesses were identified during the year, as were opportunities to improve working practices."

This overall opinion is supported by the following key considerations:

- formal risk management policies and processes have been defined and are effective at the corporate level where they are discussed and reviewed regularly by the Board. Much work has been undertaken during the year to improve and embed the risk management processes. Further improvements could be made in the consistency of risk recording, the scores allocated to risks and the processes around the identification and monitoring of mitigating actions to ensure the benefits of an effective risk management system are realised;
- the internal control environment is generally operating effectively and consistently with some minor exceptions, including non-compliance with existing VCA internal procedures and the formalising and evidencing of the operation of existing controls;
- governance arrangements in place are relevant and appropriate to the needs of the organisation. They were found to be working efficiently and effectively with some minor weakness.



Other Explicit Review / Assurance Mechanisms

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

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

PAUL MARKWICK
Chief Executive and Accounting Officer
8 July 2008



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 2008 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

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

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

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

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

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net operating surplus, recognised gains and losses and cash flows for the year then ended;



- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises the Management Commentary and Business Performance and the Remuneration Report, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
15 July 2008



INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

		2007-2008	2006-2007
	Notes	£000	£000
TURNOVER	3	11,393	10,147
Cost of sales		(8,563)	(7,674)
Gross surplus	3	2,830	2,473
Administrative expenses - Non Pay	4	(1,506)	(1,490)
Administrative expenses - Pay	4	(893)	(763)
OPERATING SURPLUS		431	220
Interest receivable		11	6
Notional cost of capital	6	(134)	(133)
Overseas Withholding Tax paid		(4)	(2)
SURPLUS FOR THE YEAR	12	304	91

Turnover and operating surplus are derived entirely from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2008

	2007-2008	2006-2007
	£000	£000
Surplus for the year	304	91
Surplus on revaluation of assets	3	1
TOTAL RECOGNISED GAINS FOR THE YEAR	307	92

The notes on pages xi to xviii form an integral part of these financial statements.



BALANCE SHEET AS AT 31 MARCH 2008

		2008		2007
	Notes	£000	£000	£000
FIXED ASSETS				
Tangible assets	7		875	823
CURRENT ASSETS				
Work-in-progress		32		170
Debtors	8	2,868		3,399
Cash at bank and in hand	10	3,194		1,128
		<u>6,094</u>		<u>4,697</u>
CREDITORS				
Amounts falling due within one year	9	<u>(1,851)</u>		<u>(1,162)</u>
NET CURRENT ASSETS			<u>4,243</u>	<u>3,535</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>5,118</u>	<u>4,358</u>
Provisions for liabilities and charges	11		(290)	(76)
NET ASSETS			<u><u>4,828</u></u>	<u><u>4,282</u></u>
TAXPAYERS' EQUITY				
General fund	12		4,793	4,233
Revaluation reserve	14		23	20
Government grant reserve	15		12	29
			<u>4,828</u>	<u>4,282</u>

The notes on pages xi to xviii form an integral part of these financial statements.

PAUL MARKWICK
Chief Executive and Accounting Officer
8 July 2008



CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	Notes	2007-2008 £000	2006-2007 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	i	2,359	583
RETURNS ON INVESTMENTS & SERVICING OF FINANCE			
Interest Received		11	6
OVERSEAS WITHOLDING TAX PAID		(4)	(2)
CAPITAL EXPENDITURE			
Payments to acquire fixed assets		(300)	(222)
INCREASE IN CASH		<u>2,066</u>	<u>365</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	ii		
Increase in cash in the period		2,066	365
Net funds at 1 April 2007		<u>1,128</u>	<u>763</u>
NET FUNDS AT 31 MARCH 2008		<u>3,194</u>	<u>1,128</u>

The notes on pages xi to xviii form an integral part of these financial statements.



NOTES TO THE CASH FLOW STATEMENT

i. RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Notes	2007-2008 £000	2006-2007 £000
Operating surplus		431	220
Depreciation charges	7	223	224
Depreciation charges transferred to Government Grant Reserve (net)	15	(17)	(21)
Loss on disposal of fixed assets	4	14	2
Impairment of fixed assets (net)	4	14	(14)
Notional charges	13	122	115
Decrease in work in progress		138	27
Decrease/ (increase) in debtors		531	(182)
Increase in creditors		689	242
Increase/(decrease) in provisions and liabilities	11	214	(30)
NET CASH INFLOW FROM OPERATING ACTIVITIES		2,359	583

ii. ANALYSIS OF CHANGES IN NET FUNDS

	Notes	At 1 April 2007 £000	Cash Flows £000	At 31 March 2008 £000
Cash at bank and in hand	10	657	636	1,293
UK current account balance	10	9	224	233
OPG account balance	10	462	1,206	1,668
TOTAL		1,128	2,066	3,194



NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

These financial statements have been prepared in accordance with the 2007-2008 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The accounts are prepared under the historical cost convention modified to include the revaluation of tangible fixed assets.

b. Income

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

c. Notional Charges

i. Notional Cost of Capital

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

ii. Audit Fee

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

iii. Intra-Departmental Charges

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

d. Fixed Assets and Depreciation

Fixed assets are revalued annually where material using appropriate indices published by the Office for National Statistics and depreciation on such revalued amounts is provided on a straight line basis over the estimated useful lives of the assets. Land and buildings are subject to professional valuation at least every five years in accordance with RICS guidance. In the years between professional valuations the VCA management board review 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:

Machinery and test equipment	10 years
Furniture and fittings	10 years
Computer, office and microfiche equipment	3-5 years
Land and buildings	Buildings are depreciated over the lower of useful economic life or land lease period; and land is not depreciated.
Motor Vehicles	4 years

e. Stocks and Work in Progress

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

f. Foreign Exchange

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

g. Leases

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

h. Pension Costs

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described at Note 5. The defined benefit elements of the schemes are unfunded. The Classic Scheme is non-contributory except in respect of dependent's benefits, under the Premium Scheme a contribution is made for which enhanced benefits are derived. Both the Classic and Premium schemes attract the same employers contributions as a percentage of pensionable pay. VCA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, VCA recognises the contributions payable for the year.

i. Financial instruments

In preparing the disclosures in Note 19 to the financial statements concerning financial instruments, the Agency has taken advantage of the exemption available in Financial Reporting Standard 13 "Derivatives and Other Financial Instruments: Disclosures", not to include details in respect of either short term debtors or creditors.

j. Early Retirement Costs

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

2. FINANCIAL TARGET

The Agency achieved its key financial target in year as set by the Secretary of State, to make a surplus on a full cost basis in 2007-2008.

3. TURNOVER

Turnover and Gross Surplus per Product Line

	TURNOVER		GROSS SURPLUS/(DEFICIT)		FULL COST	
	2007-2008	2006-2007	2007-2008	2006-2007	2007-2008	2006-2007
	£000	£000	£000	£000	£000	£000
Product Certification	5,309	5,034	1,245	1,315	4,941	4,623
Management System Certification	1,208	1,588	(192)	30	1,616	1,888
Activities for Government	3,769	2,774	1,482	905	3,356	2,693
Other activities	1,107	751	295	223	1,049	723
Total	11,393	10,147	2,830	2,473	10,962	9,927

The Agency is required to comply with the Treasury's Fees and Charges Guide and disclose a segmental analysis of its activities where fees and charges are made. VCA seeks to recover the full cost of the services it provides. Activities for Government include enforcement work for DfT and BERR. Other activities include the issue of sub-MACs, duplicate sub-MACs, conformity of production assessments/inspections and commission notices. This analysis is not required to satisfy Statement of Standard Accounting Practice 25 "Segmental Analysis".

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4. ADMINISTRATIVE EXPENSES

	2007-2008 £000	2006-2007 £000
Depreciation charges (net)	206	190
Loss on disposal of fixed assets	14	2
Impairment of fixed assets (net)	14	(14)
Travel and subsistence	59	106
Legal and consultancy	49	53
Audit fee (Note 13)	37	36
Exchange (gain)/loss on translation	(114)	142
Realised exchange gain	(21)	(14)
Head Office rent and rates	250	249
DfT on-costs (Note 13)	85	79
Other provisions	237	-
Other administrative expenses	690	661
Total non pay administration expenses	1,506	1,490
Pay costs (administration)	893	763
Total	2,399	2,253

Other administrative expenses include postage, rents payable under operating leases (Note 17), insurance, rates, fuel, telephone and IT running costs.

Pay costs (administration) includes costs relating to group bonus, general training and development for all staff, as well as general management and administration.

Pay costs, travel and subsistence, legal and consultancy and other administrative expenses are shown net of transfers to cost of sales and work in progress.

Depreciation is net of movements to the Government Grant Reserve of £16,675 (£21,355 2006-2007) including permanent diminution on revaluation (Note 15).

The external auditors have not received any remuneration in respect of non-audit services during the year.



5. EMPLOYEES AND STAFF COSTS

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

	2007-2008	2006-2007
Senior management	10	10
Professional and technical	50	47
Technical support	43	38
Administrative support	18	16
Agency, Temporary and Contract Staff		
Professional and technical	18	17
Technical support	5	6
Administrative support	4	3
Total	148	137

Technical support staff are involved in fee earning activities. Within the total for agency, temporary and contract staffs there are 19 full-time equivalent locally engaged overseas staff (21 in 2006-2007).

b. Staff costs amounted to:

	2007-2008 £000	2006-2007 £000
Wages and salaries	4,263	3,746
Social security costs	339	299
Other pension costs (Note c)	751	654
Agency, Temporary and Contract Staff	1,243	1,285
Total	6,596	5,984

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 2007-2008, normal employer's contributions of £741,463 were payable to the PCSPS (£652,452 2006-2007) at one of four rates in the range 17.1% to 25.5% (17.1% to 25.5% 2006-2007) 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 2007-2008 payments of £9,753 (£1,972 2006-2007) were made to this scheme.

6. NOTIONAL COST OF CAPITAL

The charge is calculated at the Government's standard rate of 3.5% (3.5% 2006-2007) in real terms on all assets less liabilities, excluding cash balances with the OPG where the charge is nil.

7. TANGIBLE FIXED ASSETS

	Test Equipment	Computers and Office Machinery	Furniture and Fittings	Motor Vehicles	Long Leasehold Land and Buildings	Total
	£000	£000	£000	£000	£000	£000
COST/VALUATION						
At 1 April 2007	226	1,117	153	29	161	1,686
Additions	42	155	13	14	76	300
Revaluations	-	(48)	8	-	(42)	(82)
Disposals	(1)	(78)	-	-	-	(79)
At 31 March 2008	267	1,146	174	43	195	1,825
DEPRECIATION						
At 1 April 2007	93	668	78	8	16	863
Charge for the year	18	177	15	6	7	223
Revaluations	1	(55)	6	-	(23)	(71)
Released on disposals	-	(65)	-	-	-	(65)
At 31 March 2008	112	725	99	14	-	950
NET BOOK VALUE						
At 31 March 2008	155	421	75	29	195	875
At 31 March 2007	133	449	75	21	145	823

Indexation is to the latest reliable indices in accordance with the requirements of the FRoM. The indices used are obtained from the Office of National Statistics. Where it is considered that there has been permanent impairment to assets at the end of the financial year they have been written off to the income and expenditure account. In 2007-2008 the total amount taken to the income and expenditure account as impairment in value was £36,412 (£17,900 2006-2007). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the income and expenditure account.

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

Movements in respect of depreciation and revaluation of £16,675 (£21,355 2006-2007) have been taken to the Government Grant Reserve (Note 15).

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.

8. DEBTORS

a. Analysis by type

	At 31 March 2008 £000	At 31 March 2007 £000
Trade debtors	2,270	2,851
Other debtors	84	75
Prepayments	179	124
Accrued income	335	349
Total	2,868	3,399

The Agency has no debtors due after more than one year, except for salary advances of which £1,981 (£1,222 2006-2007) is due after one year.

b. Intra Government Balances

	At 31 March 2008 £000	At 31 March 2007 £000
Balances with other central government bodies	708	1,295
Balances with bodies external to government	2,160	2,104
Total	2,868	3,399

9. CREDITORS

a. Analysis by type

	At 31 March 2008 £000	At 31 March 2007 £000
Amounts falling due within one year		
Trade creditors	3	31
Other creditors	496	324
Tax & Social Security creditors	137	95
Accruals	429	364
Deferred income	786	348
Total amounts falling due within one year	1,851	1,162
Included in other creditors are:		
Deposits from manufacturers	229	246

The accruals balance at 31 March 2008 includes £109,526 (£94,958, 31 March 2007) in respect of VCA's March 2008 payroll cost payable to DfT. There are no creditor balances falling due after one year.

b. Intra Government Balances

	At 31 March 2008 £000	At 31 March 2007 £000
Balances within other central government bodies	542	416
Balances with bodies external to government	1,309	746
Total	1,851	1,162

10. CASH AT BANK AND IN HAND

	At 31 March 2008 £000	At 31 March 2007 £000
OPG balance	1,668	462
UK current account	233	9
Cash in hand and at other banks	1,293	657
Total	3,194	1,128

11. PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement £000	Other Provisions £000	Total £000
BALANCE AT 1 APRIL 2007	(76)	-	(76)
Provisions added in the year	-	(237)	(237)
Provisions utilised in the year	23	-	23
BALANCE AT 31 MARCH 2008	(53)	(237)	(290)

£9,374 (£31,940 2006-2007) of the Early Retirement Provision is estimated to be due after more than one year. Other provisions of £237,192 are in relation to overseas expenditure.



12. GENERAL FUND		
	2007-2008 £000	2006-2007 £000
BALANCE AT 1 APRIL	4,233	3,894
Surplus for the year	304	91
Notional cost of capital	134	133
Notional charges (Note 13)	122	115
BALANCE AT 31 MARCH	4,793	4,233
13. NOTIONAL CHARGES		
	2007-2008 £000	2006-2007 £000
DfT on-costs	85	79
Audit fee	37	36
Total	122	115
14. REVALUATION RESERVE		
	2007-2008 £000	2006-2007 £000
BALANCE AT 1 APRIL	20	19
Surplus on revaluation of fixed assets	7	4
Backlog depreciation on revalued assets	(4)	(3)
BALANCE AT 31 MARCH	23	20
15. GOVERNMENT GRANT RESERVE		
	2007-2008 £000	2006-2007 £000
BALANCE AT 1 APRIL	29	50
Released to Income and Expenditure	(19)	(26)
Revaluation depreciation	2	5
BALANCE AT 31 MARCH	12	29

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

16. CAPITAL COMMITMENTS

The Agency has capital commitments of £25,720 as at 31 March 2008 (£31,696 at 31 March 2007).



17. COMMITMENTS UNDER LEASES

The Agency has annual commitments under operating leases as follows:

	2007-2008 £000	2006-2007 £000
EXPIRING:		
Land and buildings - within one year	27	13
Land and buildings - in second to fifth years inclusive	88	29
Land and buildings - over five years	224	224
Total	339	266

Total rentals for 2007-2008 of £338,718 (£266,093 2006-2007) were charged to the income and expenditure account.

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2008

19. FINANCIAL INSTRUMENTS

The Agency's financial instruments comprise cash and funding from the OPG account (as shown in Note 10), together with various items such as trade debtors and trade creditors that arise directly from operations. All financial instruments are short term and arise purely from the Agency's day-to-day activities. The book values equate to the fair values.

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

20. RELATED PARTY TRANSACTIONS

VCA is an executive agency of the DfT.

The DfT, of which the SSDL 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 2007-2008 from the Department was £2,357,471 (£2,419,807 2006-2007). In addition VCA received sales income of £1,411,675 from BERR during 2007-2008 (£354,200 2006-2007).

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.

Amounts due and owed at the balance sheet date are shown in Notes 8 and 9.

21. POST BALANCE SHEET EVENTS

The accounts were 'authorised for Issue (released to the Secretary of State to lay before Parliament)' on 21 July 2008 by Paul Markwick as Chief Executive and Accounting Officer.

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