



Department
for Transport



Vehicle Certification Agency
**An Executive Agency of the Department for
Transport**
Annual Report and Accounts 2015-16

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HC 155

THE VEHICLE CERTIFICATION AGENCY 2015-16



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Contents

Foreword	4
Introduction	5
Performance Report	6
<ul style="list-style-type: none">• Delivery of our business plan 2015-16• Performance Summary• Financial Review• Sustainability Report• Key Performance Measures	
Accountability Report	21
<ul style="list-style-type: none">• Directors' Report• Remuneration & Staff Report• Statement of Accounting Officers Responsibilities• Governance Statement• The Certificate and Report of the Comptroller and Auditor General to the House of Commons	
Financial Statements	40

Foreword - from the Interim Chief Executive

Welcome to the Annual Report for the Vehicle Certification Agency (VCA) for 2015-2016. Our aim is to enable the supply of safe and environmentally compliant products into the UK and European market place, providing assurance to Governments and consumers alike.

2015-16 was a challenging period for a number of reasons but despite this, we have delivered against all of our quality targets as well as exceeding our financial forecasts. During this period we delivered a turnover of £20.5m compared to a target of £17.7m with operating expenses of £19.2m. This generated a surplus of £1.3m against a targeted deficit of £381k. This is a creditable performance given the loss of certain enforcement work for other Government departments at the start of the financial year and the wider economic challenges in the automotive market sector globally. It means that the Agency has avoided the deficit that was forecast in the 2015-16 Business Plan.

Our core Product Certification work grew by 18%, much of this being attributable to our UK, European and India operations, and reflects the increasing demand for our services in these regions. Our Asia Pacific operations continue to show a strong financial performance, while our other overseas operations in China, Brazil and USA are broadly in line with forecasts. It is clear that they have experienced increasingly challenging local market conditions.

Our Management System Certification operation has delivered another solid financial performance and continues to focus on the quality and environmental activities in the automotive sector.

2015-16 brought with it the unfolding situation of the VW emissions scandal, and the Agency actively supported the Department's response to this and the subsequent emissions testing programme. The testing programme was clearly an important undertaking and as such significant resources were redeployed from our normal type approval operations to ensure that it was delivered.

I am pleased to report that customer and staff satisfaction levels in the Agency remain high. The Civil Service wide staff survey showed the Agency to have an engagement score of 62%, which places us amongst the highest performers across government. Our customer satisfaction too has increased slightly to 98%, up 3% on last year. The Agency has continued to invest in its staff, operating systems and infrastructure, with a particular emphasis on ICT related systems to delivery operational resilience and efficiency improvements.

In summary, the Agency continues to deliver a convincing performance, meeting all quality targets and financial expectations; this was achieved through the commitment, hard work and professionalism of its staff. It puts the Agency in a strong position going forward and I am confident that we will continue to deliver the high quality service for which we are recognised today.

I would also like take this opportunity to acknowledge the contribution of our previous CEO, Paul Markwick, who left the Agency during 2015-16. Paul made a significant contribution to the development and success of the agency over an 11 year period.

Introduction

About the Agency

Brief History and Background

The VCA was established in 1990 and is an Executive Agency of the Department for Transport (DfT). Prior to 1990 the work now done by VCA was carried out by an operational division of the then Ministry of Transport. The VCA is an integral part of the Motoring Services (MS) Group and the accounts will be fully consolidated into the Departmental Group Accounts.

The VCA's main business is delivering its responsibilities to the Secretary of State for Transport 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. The VCA also publishes a database of CO₂ emissions from passenger cars which underpins the graduated Vehicle Excise Duty (VED) and Company Car tax schemes.

VCA is also the administrator for the approval of packages, tanks, and receptacles for the carriage of dangerous goods. We issue Vehicle Special Orders on behalf of DfT, to permit vehicles to use public roads that are unable to meet vehicle regulations because of their specialised design.

In addition to statutory work, VCA provides a range of Management System Certification (MSC) services to the automotive industry supporting on-going compliance to the Type Approval and Conformity of Production (CoP) 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.

Organisation

VCA takes its policy lead from the DfT centre and the Motoring Services Group, working in particular with the International Vehicles Standards division, as well as the Traffic, Dangerous Goods and Greener Driving divisions. There is monthly reporting of financial and performance information to the Department for consolidation into HM Treasury and Cabinet Office returns, supported by challenge meetings with senior officials.

The Governance Statement, pages 33-37, shows who is on the Management Board and how it operates, while the Remuneration & Staff Report pages 23-31 provides information on Board appointment terms, salary and pension entitlements.

About this report

This Annual Report and Accounts is the principal means for formally reporting to Ministers and Parliament on VCA's performance and its statutory financial statements. It covers the period 1 April 2015 to 31 March 2016.

Performance Report

Delivery of our business plan 2015-16

Information Services

Customer Experience

Customers are at the heart of everything we do. Public service reform puts the customers at the forefront of service design and delivery. Ongoing customer surveys ensure we understand their needs and can measure how well we are delivering our services to meet their requirements.

Customer Service Excellence

The annual survey of customer satisfaction is conducted by an independent body, and this year exceeded the Secretary of State target of 90% by achieving a rating of 98%. This score reflects the VCA commitment to improving customer satisfaction across our range of products.

Customer Communications

Much of our communication is managed through the VCA web site, and links into Gov.UK, where the Fuel Consumption and CO₂ data is accessed by millions of citizen and business users.

Information Assurance

Information Assurance continued to support the Agency in meeting business and statutory obligations in 2015-16. The main activities carried out in 2015-16 were:

- data handling and security awareness training for new recruits; and
- meeting legislative requirements, including the Environmental Information Regulations and Freedom of Information and Data Protection Acts – exceeding the targets set out within legislation and the Agency's business plan.

Information and Communication Technology

To maintain the current service to VCA and its customers, the key activities carried out in 2015-16 were:

- completion of a server virtualisation programme as a precursor to fully implementing Disaster Recovery capability on a second site which is in progress;
- commencement of a programme of upgrades to services as a foundation for the delivery of new or enhanced services;
- commencement of the rollout of a document management system, leading to efficiencies in the way the Agency manages data;
- delivery of enhancements to our existing Point of Sale (POS) Software that provides environmental labels for new cars at the POS; and
- IT service contract consolidation to produce economies of scale.

Digital Services

VCA is working with its partners in DfT to actively progress the digital and transformational government agendas. This includes: working with other DfT agencies to develop shared data registers; establishing an outline strategy to develop digital services and move IT services to the cloud.

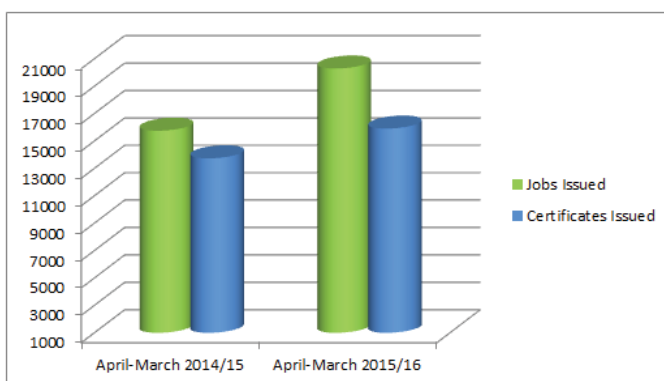
Demand and throughput

Whole vehicle and component type approval activity levels have continued to grow by 18% this year, the increase being stimulated by a combination of:

- Applicability of European Type Approvals to the design and manufacture of small, medium and large trailers;
- The Multi-stage Builds of commercial vehicles now falling into type approval;
- Significant increases in product engineering and approvals by major Original Equipment Manufacturers (OEM's); and
- Component test work in UK and across Europe.

Performance 2014-15 v 2015-16

- We have issued more Type Approval Certificates during 2015-16 compared to 2014-15.



Conformity of Production assessments and certification has also reached their highest levels, driven primarily by new small and medium-sized enterprise (SME) entrants to European Type Approval not having ISO 9001 (quality) certification.

Management Systems Certification has remained at prior year levels.

	2015-16 Actual	2014-15 Actual
European Type Approvals	23,162	17,961
CoP Audits – New UK clients	22	37
Management Systems Certificates	637	622
MSC Audit Days	2,450	2,544

Quality Assurance

VCA takes the quality of its operations and systems very seriously, and is accredited by United Kingdom Accreditation Service (UKAS) and recognised by the International Automotive Task Force (IATF) for the Management Systems Certification activities. We audit all our Technical Services, internal and external, to the requirements of the framework Directives and the principles of ISO 17020 and 17025, and we maintain test equipment calibrations in accordance with ISO 17025. The VCA Central Quality function audits all the Agency Departments and Branches for adherence to our Quality Operating System. Any non-conformances are monitored by the Group Board to ensure timely closure and adequate corrective action.

Enforcement

Delivered on behalf of DfT:

CO₂ & Fuel Consumption Advertising Standards Enforcement

Service level agreement objectives were delivered. We vetted 1,118 adverts / hoardings and publications. As a consequence, 12 cases were resolved and none remain open. 23 requests for pre-publication advice were answered.

V55 Secure Registration Checking

17 applications were received and processed during the period.

Dangerous goods

138 new packaging certificates and 96 amendments were issued. 25,137 tank certificates were issued by Authorised Inspection Bodies from the database.

Human Resources (HR)

Actual Numbers at year end

Full-time equivalents (FTE)	2015-16		2014-15	
	Permanent	Others	Permanent	Others
Senior Management	9	0	9	2
Professional & Technical	106	24	117	32
Administrative	32	19	31	13
Total FTE's	147	43	157	47

Health and Safety

Internal health and safety assurance is monitored through a regime of regular auditing and inspections undertaken by internal qualified health and safety team members and external professionals such as Crown Fire Inspectors. Activities with significant risks are assessed, controlled and reviewed as necessary. The health and safety team monitors and reports back on statutory assessments and activities completed by the Total Facilities Management contractors. Issues identified are actioned by the managers responsible and an

overview is entered into the monthly senior management’s health and safety report. Post incident investigations are undertaken by the team following significant incidents, and the team manage the incident database and report RIDDOR incidents.

Members of the Health & Safety team also help line managers and Local Human Resources by completing workplace ergonomic assessments and stress assessments.

Performance Summary

Business Objectives and Secretary of State Key Performance Measures

VCA contributed to the transport commitments set out in the Department’s Business Plan for 2015-16 particularly in the areas of vehicle safety, security and environmental impact.

VCA chairs the DfT Vehicle Technology Forum, 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.

The specific VCA key performance measures, as agreed by the Secretary of State, are shown below, together with the general measures that apply to all Motoring Agencies.

Table 1: Secretary of State Key Performance Measures

		Target	Result
1. Reform and Modernisation	1.1 Implement a strategy for returning VCA to a break even position.	30/09/2015	Achieved
	1.2 Identify a new site for the Bristol HQ.	30/09/2015	Achieved
	1.3 Take forward the Government Digital Strategy.	31/03/2016	Achieved
2.Operational	2.1 System and component approval certificates issued within 9 working days of the completion of technical clearance.	92%	92.6%
	2.2 Audited test reports deemed to have no critical defects.	99%	100%

	2.4 New Type Approval clients that do not hold ISO 9001 or ISO/TS 16949 management systems certification to be subject to Conformity of Production assessment, in accordance with the agreed risk-based approach, before approval issue and 100% of surveillance audits on non ISO/TS customers to be conducted using the risk based approach, before CoP renewal.	100%	100%
	2.5 Maintain or improve the satisfaction of our customers.	90%	98%
3. Finance and efficiency	Agency finance: 3.1 Deliver financial performance in line with the 2015-16 budget.	£700k deficit 31/03/2016	£1,337k surplus 31/03/2016
	Workforce: 3.2 FTE staff numbers as at 31 st March 2016 will not exceed 204.	204 FTE	189 FTE
	3.3 Ensure average number of working days lost to sickness absence does not exceed 7 days per FTE.	7 days	5.3 days
4. Customer Service	Prompt payment: Payment of invoices within 5 working days.	80%	97%
	Freedom of Information: Provide a response within 20 working days.	93%	95%
	Parliamentary Questions: Provide a response within the due date.	100%	100%
	MSU correspondence: Provide a response within 7 working days.	100%	100%
	Treat Official Correspondence: Provide a response within 20 working days.	80%	100%

Financial Review

Financial Strategy

Our long term financial strategy is to:

- generate agreed surplus in line with the business plan; and
- generate sufficient cash to fund investment.

Financial results

The financial results for 2015-16 show a net trading surplus of £1.3m (2014-15: £535k surplus), against a targeted deficit of £381k. Our original business plan was to forecast a deficit of £700k, but this was subsequently changed to a targeted deficit of £381k when new information became available.

Total Income was £20.5 million, (£18.3 million in 2014-15) and £2.8 million above the budget of £17.7m. Total net costs were £19.2 million (£17.8 million in 2014-15) including unrealised surpluses on translation of foreign currencies. The total impact of this was around a £172k gain, (£248k gain in 2014-15).

Product Certification Income. Demand for Type Approval services was high throughout the year and income increased by 18.2% (£2.3m) over 2014-15. The Japanese office increased turnover by 15.4% in 2015-16, whilst the US office decreased turnover by 4.1%. Type Approval income as a percentage of total VCA income stands at 73.7%.

Management System Certification Income. This is a very competitive market and price pressures have continued within it, especially from some of our major customers.

Despite this the Agency made considerable progress during the year making an operating surplus of £220k compared to a surplus of £125k in 2014-15. This was against a target to make a 10% margin. Income decreased by 0.5% (£10k) whilst costs were managed and decreased by 5.2% (£104k).

Activities for Government. This sector includes a number of discrete work areas for DfT. These include enforcement programmes and policy support for Type Approval, and technical advice services on Dangerous Goods Packaging and some environmental branches of DfT. In addition, VCA carries out bus lane and parking enforcement camera certification for the Traffic Division, and issues Vehicle Special Orders for the International Vehicles Standards Division. Significantly during this financial year, VCA was asked to support the Department's response to the VW Emissions issue. However the value of work in Activities for Government is a declining proportion of the VCA's income and has fallen for the sixth year running with a decrease of 6% (£151k) from 2014-15. The overall percentage of total income from this activity centre is now 11.5% in 2015-16 compared to 31.0% in 2009-10. Without the exhaust emissions test programme, this would have shown a decrease of £1.1m or 44.4%.

Other Activities. This includes Dangerous Goods Packaging Certification, sales of Point of Sale software for car emissions data, sales of VISTA (Type Approval handbook).

Costs. Although costs have increased by £1.4m over last year as indicated above we have saved on our staff costs by £391k. Other positive savings were made in Travel & Subsistence of £59k, Accommodation costs of £41k, Communications costs of £32k. Investment in fixed assets led to an increase in amortisation and depreciation of £59k. However, this was offset by re-living of assets of £184k. The main increase in costs is around the emissions work we undertook at a cost of £916k, whilst the increase in provisions was another £491k. Overseas operations cost us an additional £228k with increased costs in Southern Europe and China, whilst there were other increased costs in the regions of Computer Running Costs (£53k), Legal & Consultancy charges (£31k) and the loss on disposal of assets (£38k).

Efficiencies. We continued our focus on driving efficiencies across the VCA throughout 2015-16, as an organisation we have increased our income in the year by 12%, this is in light of a reduced FTE for most of the year of 6% (FY 15-16 FTE average headcount of 190 vs target of 204, our 14-15 FTE headcount was 204)

As a result our income per FTE compared to last year has increased by circa 20%. This increase is particularly impressive given the fact that we have delivered a major project for the DfT and continued to support manufacturers around the globe with a reduced headcount.

We have seen a significant demand in issuing certificates in 2015-16, with an increase of 28.6% in ETA (European Type Approvals) in the year. A significant portion of this growth was due to the increase in commission notices issued. Overall income from certification was 20% higher than last year (£223k).

In the year we saw income from this part of the business increase by 66% or £283k compared to last year. This additional volume of certificates was completed with no additional FTE or cost. We achieved this through reviewing process within team at both Nuneaton and Bristol, reducing duplication and providing support across the sites during peaks in demand. We developed a “one team” approach in terms of standardising the admin roles and up skilled parts of the teams where we had skills gaps.

Cost Savings. We benefited in a number of “one off” cost savings in 2015-16, these are driven by lower than expect headcount, particularly due to changes in the Board structure, as a consequence of resignations and retirements. The DfT and VCA have plans to backfill these positions in 2016-17 to ensure VCA has the full complement of senior positions in place to take VCA forward.

We have also deferred investment in training during the year, this is a timing issue caused by business growth and the VW emissions project. We are fully committed to our staff development and plans are in place to continue investing in our staff during 2016-17.

Other financial information

Payments to Creditors. VCA adheres to the HM Treasury’s Prompt Payment Initiative, copies of which can be obtained from the Agency’s headquarters. It is VCA’s policy to pay undisputed invoices within 5 days of receipt. VCA measures its performance by reviewing all invoices paid; the Agency achieved 99.21% of invoices paid within 30 days of receipt and 96.62% within 5 days of receipt in 2015-16, compared to 98.48% and 95.19% in 2014-15 respectively.

Pension. Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in the Financial Accounts (See notes 1(k) and 4(c)).

Key Performance Measures

Please refer to our published 2016-17 Business Plan on our web site for details of main trends and factors affecting future development of the organisation.

1. Changing our Agency	1.1(a) Move key business application services from on-premise to the Cloud.	31/12/2016
	1.1(b) Review the end-to-end Type Approval processes and deliver digital applications that fully integrate with back office functions and are compliant with GDS standards.	31/03/2017
	1.1(c) Establish opportunities for service and data sharing with the wider DFT group.	30/06/2016
	1.2 Agree an implementation plan with the Motoring Services Board to take forward the recommendations of the Motoring Services Strategy Consultation; and to respond to the Government's Emissions Test Programme and the UK Policy development on emissions testing.	30/09/2016
	1.3 Transition VCA branding to DFT/Government formatting across the Agency.	31/12/2016
2. Our Services	2.1 Type Approval certificates issued within 10 working days of completing technical clearance.	88%
	2.2 Audited test reports deemed to have no critical defects, a critical defect being one that would cause the approval to be likely to be rejected, legitimately, by a receiving Approval Authority or one that renders the approval invalid such that it should be withdrawn.	99%
	<p>2.3 100% of new Type Approval clients that do not hold a suitably accredited ISO 9001/TS16949 certificate, or a suitable compliance statement shall be subject to a Conformity of Production audit prior to TA issue.</p> <p>100% of existing type approval clients that do not hold a suitably accredited ISO 9001/TS16949 certificate will be subject to ongoing surveillance audits, the frequency of these audits will be in accordance with VCA risk based process.</p> <p>For type approval clients that do hold a suitably accredited ISO 9001/TS16949 certificate, the status of these clients will be reviewed for ongoing conformity of production over the normal cycle of certification, typically 3 years.</p> <p>For VCA Type Approvals, where evidence of a failure to control conformity of production is identified, VCA will in all cases commence an investigation within 10 working days.</p>	100%

	2.4 Maintain or improve the satisfaction of our customers.	90%
3. Meeting Customer Demands	3.1 Pay undisputed supplier invoices within 5 working days.	80%
	3.2 Freedom of Information: Provide a response within 20 working days.	93%
	3.3 Parliamentary Questions: Provide a response within the due date.	100%
	3.4 MSU correspondence: Provide a response within 7 working days.	100%
	3.6 Treat Official Correspondence: Provide a response within 20 working days.	80%
4. Financial Responsibilities	4.1 Deliver financial performance in line with Business Plan.	£100k surplus
	4.2 Achieve Agency Headcount - Ensure efficient deployment of staff within business plan complement set for 31 March 2017.	213
	4.3 Ensure the number of working days lost due to sickness absence does not exceed 7.0 days.	7 days

Sustainability Report 2015/16

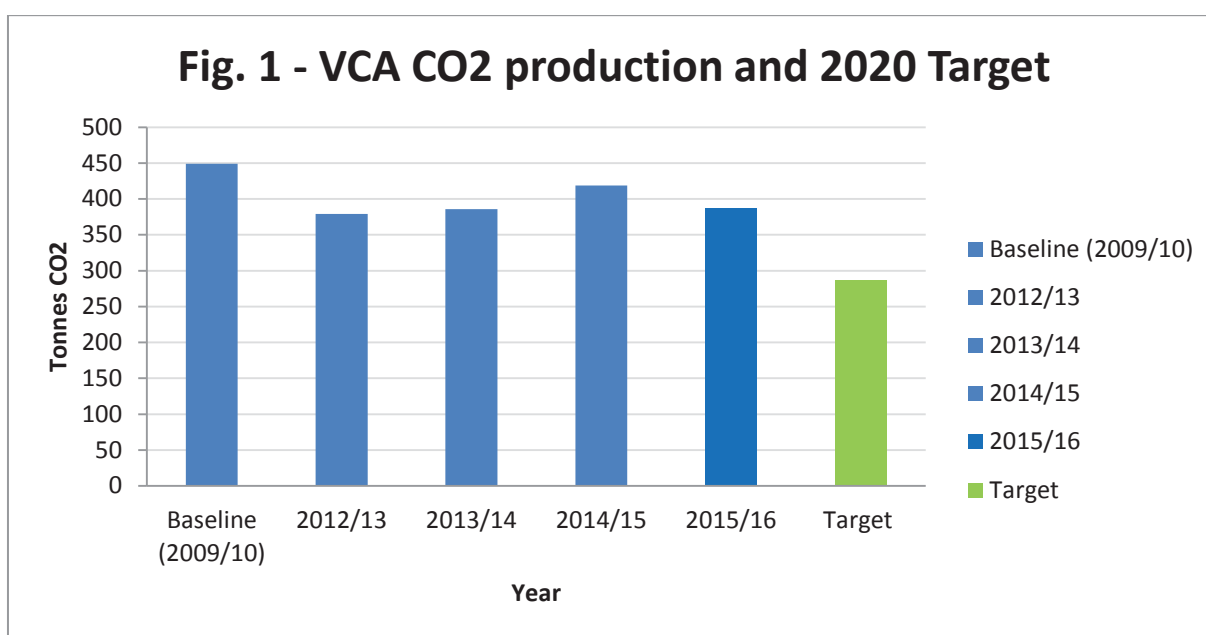
1. Introduction

As part of the Department for Transport, the Vehicle Certification Agency is committed to delivering the Greening Government Commitments (GGC). The GGC targets are set against the baseline year of 2009/10 and new targets were released in April 2016. The new targets form the framework for our sustainability strategy and any drive improvement projects moving forward and up to 2020. The GGC targets are set within key areas (as described below) and form the basis for our recording and reporting processes.

In addition to the annual information below, the current VCA Going Green 2020 Strategy contains relevant information on our targets and projects and can be found in Appendix 1.

2. Greenhouse Gas Emissions

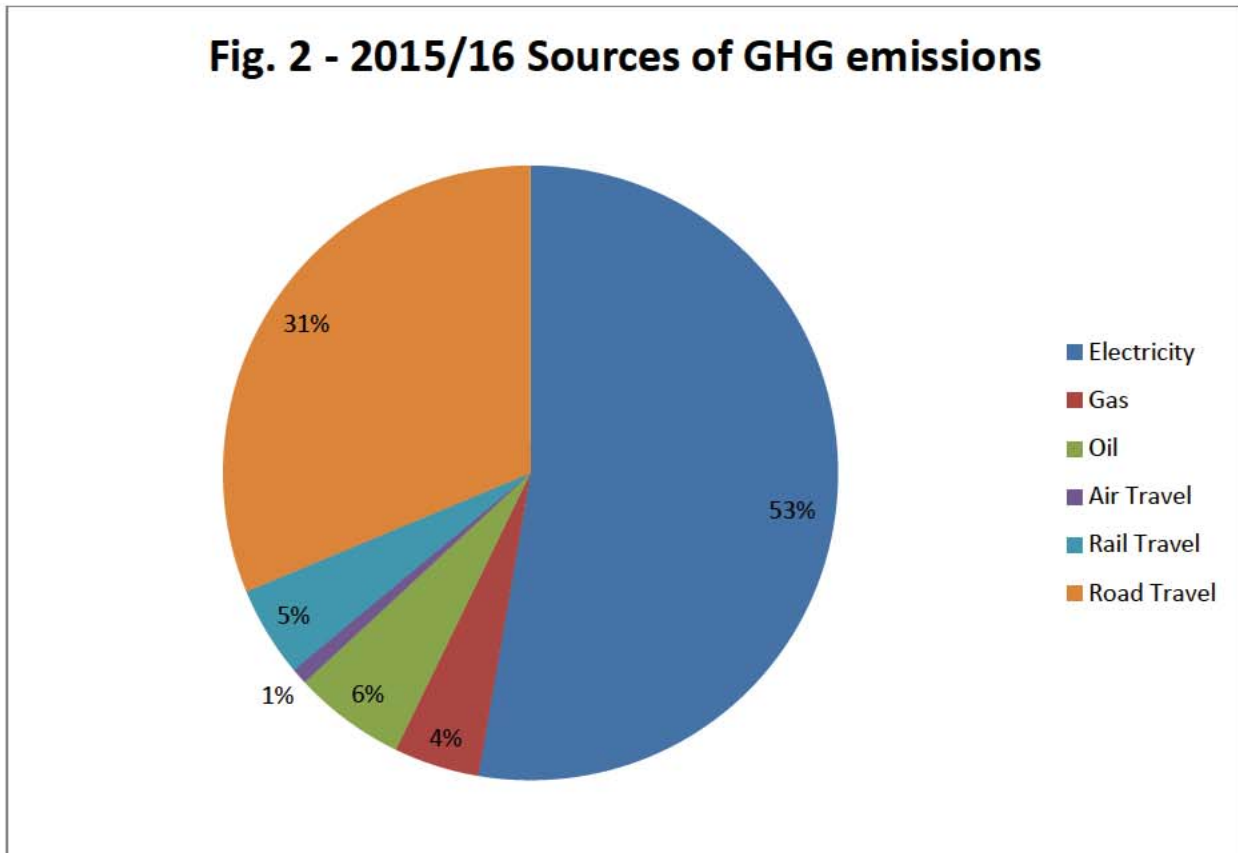
2.1. Emissions totals



The GGC target for overall Green House Gas (GHG) emissions is a 36% reduction against baseline. As shown in Fig 1, the VCA has made progress towards achieving the 2020 target however there is still further reductions needed. Whilst the 2015/16 figures show that we are again moving in the right direction, it is clear that we will need further projects to achieve the target. In addition, we can expect some increase in usage in 2016/17 as the Midlands centre continues to be used for more operations as part of the emissions project. Our GHG emissions come from several business areas and understanding the breakdown of these allows for more efficient targeting of reduction projects. Fig 2 shows our GHG emissions by source and it is clear that we should focus our attention first on Electricity and Road Travel as these areas have the potential to give the greatest overall improvements.

As shown in Appendix 1, several projects have been investigated with the combined potential to achieve half of the required reduction. However, these projects still require development into business

cases and will require investment. In addition, the document outlines some further projects to investigate.



2.2. Domestic Flights

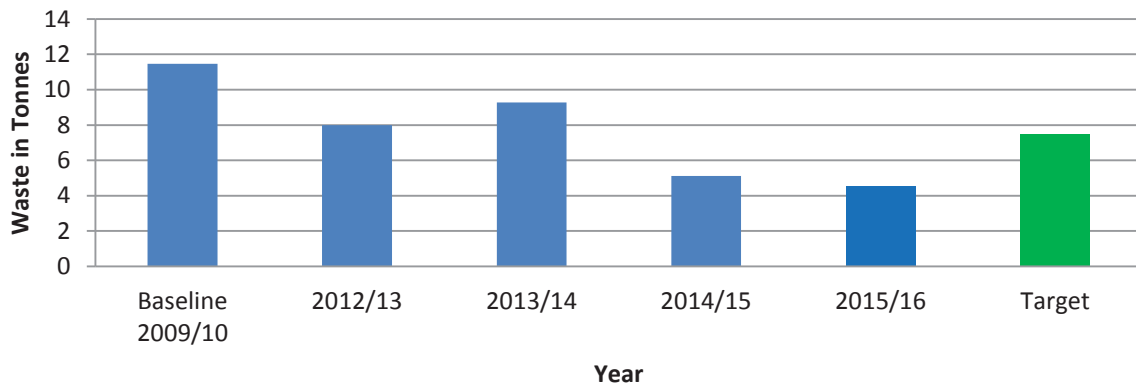
Associated with GHG emissions, the GGC has a specific target for reducing domestic flights. This represents a difficult target for the VCA as despite having relatively few domestic flights, they are a business requirement and therefore difficult to reduce. Coupled with a low baseline figure we would need to reduce our domestic flights by 90% which is not feasible. We are currently discussing the potential to remove chargeable domestic flights from the reporting process with the DfTc Sustainability Manager as the expense and impact fall to the customer.

3. Waste

3.1. Reduce total waste

The GGC targets for Waste are broken down into 3 areas. The first of which is a target to reduce overall waste by 25% against baseline. As shown in Fig 2, the VCA has continued a downward trend in 2015/16 and has already achieved this target. This is positive but we must ensure that we keep to the same standards and understand our waste streams to ensure this figure does not creep up in the future.

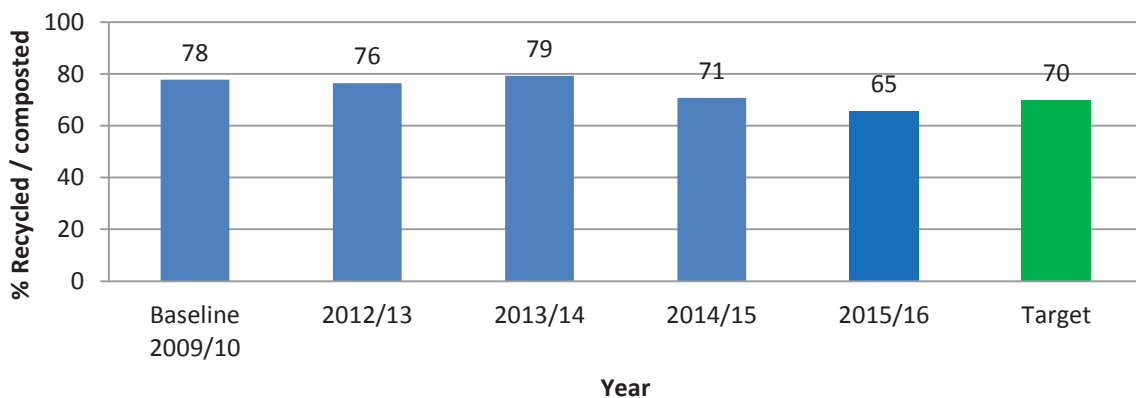
Fig 3. - VCA Total waste production and target 2019/20



3.2. Recycling and Composting

In addition to reducing overall waste, the VCA must ensure that at least 70% of our generated waste is either recycled or composted. As shown in Fig. 4, we achieved this target back in 2009/10 but have seen a gradual decline in our recycling rates ever since. 2015/16 continued this trend to bring our rates down below the target. Whilst the reasons for the drop in recycling rates are unknown, it is suspected that they relate to the bins and recycling facilities supplied at the Eastgate Operations Centre. The facilities had become tired and mismatched giving a confused approach to recycling on site. The bins have recently been refreshed and standardised with a simple system in place and all personal bins removed. It is hoped that this will improve recycling rates and bring us back within our target although it is currently too early to assess. An additional project to collect food waste at the EOC can be initiated if required, further improving recycling rates.

Fig. 4 - % of Waste Recycled or Composted



3.3. Landfill diversion

Associated with item 3.2 is a further target to divert 90% of waste away from landfill. Our current position here is shown in Fig. 4 and currently stands at 65% as our landfill avoidance measures are

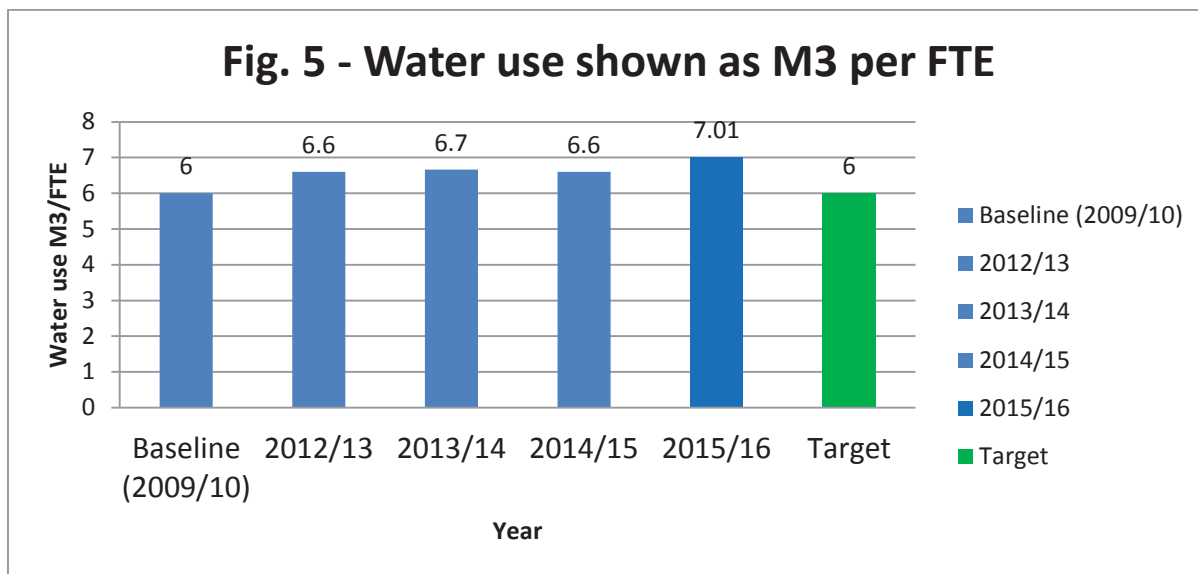
currently recycling only. The additional 20% target (on top of the 70% recycling and composting) can include other waste recovery processes such as incineration or biomass.

This target is likely to prove challenging for the VCA. Our first strategy is to increase the amounts of recycling and composting as much as possible but this will still likely leave a shortfall – our maximum diversion rate being 78% in 2009/10. To target the shortfall we will need to procure a waste management service that can process our current landfill waste and supply details on the waste diversion achieved. Whilst possible, there is likely to be a cost associated with a service of this type that is higher than current landfill.

Estates are currently investigating a Total Facilities Management contract to combine all estates service requirements into a single contract. This has the potential to include a Waste Management service and a requirement for the contractor to aid in achieving the GGC targets. As such, progressing with this element of the GGC is not a priority.

4. Water

The target for water use reduction is to improve against the 2009/10 baseline figure. As shown in Fig. 5, water use at the VCA has been gradually increasing and this continued into 2015/16. The strategy in Appendix 1 identifies some areas to target improvements that will be progressed in 2016/17.



5. Appendix

5.1. Appendix 1 – Going Green 2020 Strategy



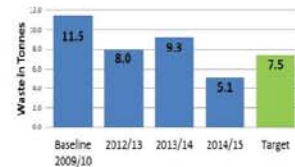
The Vehicle Certification Agency is dedicated to delivering the 2020 Greening Government Commitments (GGC). Established in 2011, new GGC targets come into effect in March 2016 and aim to further reduce the government's environmental impact and deliver the greenest ever operations. The VCA has made significant improvements since 2011 with new and current projects driving us further towards our 2020 goals.

Our current position, targets and projects are shown below for each of the relevant environmental areas.



TARGET: Reduce total waste generation by 25% against baseline

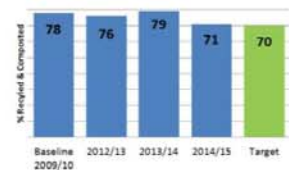
On target to achieve. Previous years have seen significant variation. To keep us on track, we need to further understand our waste streams clearly to prevent us from backsliding. A waste composition analysis is planned for 2016/17.



TARGET: Recycle or Compost at least 70% of total waste

We currently recycle 71% of our total waste. Improvements have been identified that should ensure we meet and exceed the target:

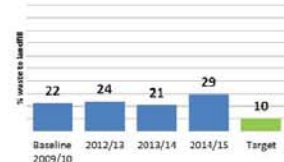
- Standardise bins across estate to remove mixed messages and increase recycling rates
- Re-tender waste management contract to include all mixed recycling
- Initiate green collections at EOC



TARGET: Landfill less than 10% of total waste

This represents our most challenging waste target. Whilst the recycling initiatives outlined above will count towards this figure, it is not yet known if they are significant enough – options to explore in 2016/17 are:

- Contractually ensuring residual waste is incinerated to reduce overall landfill
- Identify further recycling initiatives



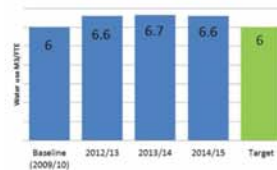


Water

TARGET: Continue to reduce water consumption against baseline and 2014/15

Only a small improvement is required to reach the target. The following improvement projects should be more than adequate, but do require quantifying through a business case (to be completed 2016/17):

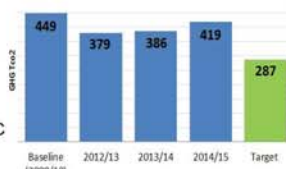
- Install PIR sensors on urinals
- Update/Replace dual flush systems
- Install tap aerators & push taps
- Analyse and reduce cistern volumes
- Explore rainwater harvesting at Nuneaton



TARGET: Reduce Greenhouse Gas emissions by 36% against baseline

Current projects can reduce GHG emissions by 18% and business cases are being developed to approve and progress. Further projects have been identified but their impacts are yet to be calculated. Whilst this target is challenging, it can be achieved by investing in new technology and rationalising current usage. Our challenge is also to identify historic increases and target these areas for improvement.

- Re-lamping with LED alternatives – save 6.4%
- Install PIR sensors – saving 4.6%
- New ULEV pool car fleet – saving 1.9%
- Air-Con Optimisation at MC – saving 1.2%
- Voltage optimisation – saving 1.8%
- Increase ULEV pool car use – saving TBC
- Improve distance meeting facilities – saving TBC
- Cloud based servers – saving TBC
- Rationalise EOC estate – saving TBC

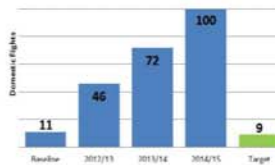


Greenhouse Gas Emissions



TARGET: Reduce number of domestic flights by 20% against baseline

As shown opposite, this is a challenging target requiring a 90% reduction from current use - in part due to a very low baseline figure. VCA staff travel regularly as part of the core business. This includes domestic flights, in particular to Ireland. Further investigation is required to identify current usage and proposals will be made via the Sustainability committee on how to achieve the 2020 target by end 2016/17.



In addition, the VCA will.....

- Pursue and report upon sustainable procurement practices, buying more efficient products and services with the aim of achieving long-term overall value for money. This will be achieved by embedding compliance with Government Buying Standards where practicable.
- Be open and transparent, reporting publicly on the ways in which we are working to address; Climate Change adaptation, Biodiversity and the natural environment, Procurement of food and catering services, Sustainable construction and any other areas that are considered significant to operations
- Work towards reporting targets for Greenhouse gases, Water and Waste per FTE and establish the mechanisms to do so during 2016/17

PAUL HIGGS
Interim Chief Executive and Agency Accounting Officer
14th July 2016

Accountability Report

Directors' Report

This accountability report is produced to comply with the requirements of the Companies Act 2006, adjusted for the public sector context as required by the HM Treasury Financial Reporting Manual 2015-16. It should be read in conjunction with the Governance statement, the Remuneration report and the Strategic report.

Accounts Direction

The financial statements on pages 39 to 62 have been prepared in accordance with the direction given by the Treasury in pursuance of Section 4(6) (a) of the government Trading Funds Act 1973, and Dear Accounting Officer letter [DAO (GEN) 02/10].

Members of the board

Full disclosure of the serving directors is available in the governance statement.

Directorships

Directors are required to disclose any other business interests in the register of interests that may conflict with their responsibilities. No director has declared any business interest that may conflict with their role.

Asset values

As assets are revalued annually in line with the accounting policy, the Directors consider there is no significant difference between the market value and carrying value of assets in the accounts. As a result of this asset lives were also extended by a year for those assets which are still in use despite being fully depreciated.

Financial Instruments

Please refer to Note 17 in this report which details the position VCA has in relation to financial instruments.

Charitable donations

The Agency made no charitable donations in the year.

Political donations and expenditure

As a Government organisation, the Agency acts for the elected government of the day and is non-political. It made no political expenditure or donations.

Statutory framework

Automotive type approval is VCA's primary function, carried out under the Road Vehicles (Approval) Regulations 2009 which implement the framework EU Directive 2007/46/EC, as amended for cars, trucks, buses, and trailers. Similar framework EU Directives for 2/3 wheeled vehicles and agricultural vehicles are implemented by the Motorcycles etc. (EC Type Approval) Regulations 1999 and the Tractors etc. (EC Type Approval) Regulations 2005 respectively, both as amended. Fees for type approval work are charged in

accordance with the Motor Vehicles (Type Approval and Approval Marks) (Fees) Regulations 1999, as amended.

Non-road mobile machinery (NRMM) approvals are issued in accordance with the NRMM EU Directive 97/68/EC, as amended under powers in the Non-Road Mobile Machinery (Emission of Gaseous and Particulate Pollutants) Regulations 1999.

Vehicle Special Orders are issued under Section 44 of the Road Traffic Act 1988.

Certification of parking and bus lane civil enforcement camera systems is issued on behalf of DfT under the Civil Enforcement of Parking Contraventions (Approved Devices)(England) Order 2007 and the Bus Lanes (Approved Devices) (England) Order 2005 respectively.

Cost allocation

The Agency produces information in note 2 to the accounts on the cost of its activities for fees and charges purposes using Treasury Guidance.

Personal data related incidents

There were no breaches involving individuals' records.

Auditor

The Comptroller and Auditor General (C&AG), as head of the National Audit Office, is the appointed auditor for the VCA. The audit work for the 2015-16 accounts cost £55,000. The NAO did not receive any remuneration for non-audit related work.

As far as the Accounting Officer is aware there is no relevant audit information the auditor has not been provided, and that the Accounting Officer has taken all reasonable steps to provide relevant audit information to the auditor.

As far as the Accounting Officer is concerned the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Parliamentary Accountabilty Disclosures

Losses & Special Payments

There were no losses or special payments that are required to be disclosed per HM Treasury Guidance.

Regularity of Expenditure

VCA have complied with the regularity of expenditure requirements as set out in HM Treasury Guidance.

Remuneration & Staff Report

Remuneration Policy

The Agency has the authority to determine the terms and conditions relating to the remuneration (excluding pensions) of their own staff below Senior Civil Service grades and the payment of allowances to all staff.

The remuneration of senior civil servants (SCS) is outside the scope of the Agency's authority and 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.

Further information about the work of the Review Body can be found at:

www.gov.uk/government/organisations/office-of-manpower-economics

Service Contracts

The Constitutional Reform and Governance Act 2010 require Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at

www.civilservicecommission.org.uk

Remuneration (including salary, benefits in kind and pension entitlements)

The following sections provide details of the remuneration and pension interests of the Directors of the Agency, which have been subject to audit. There were no Benefits in Kind received by any Directors during the year.

Interim Chief Executive Officer - Remuneration and Performance

Mr Paul Higgs 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.

Non-Executive Directors (Audited)

Non-Executive Directors are appointed on merit on the basis of fair and open competition, and are appointed for a 3 year period, with the option of serving a further 2 years should this be deemed appropriate by the Accounting Officer in consultation with the DfT. The Non-Executive Directors (NEDs) of the Management Board received the following remuneration for their services during the year:

Non-Executive Director	2015-16	2014-15
	£'000	£'000
Dr Susan Sharland	13	13
James Moore	8	10
Total NED remuneration	21	23

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. The following sections provide details of the remuneration and pension interests of the Chief Executive and Board members employed by the Agency.

Salary, Bonuses, Pension and Benefits in Kind (Audited)

The information below sets out the remuneration details of all the members of the Management Board, employed by VCA, as at 31 March 2016. Salaries include gross salaries, overtime, and any other allowances subject to UK taxation, but exclude employer pension contributions. No additional fees were received in their capacity as board members nor were any benefits in kind received.

Officials	2015-16				2014-15 (Restated)			
	Salary	Bonus	Pension	Total	Salary	Bonus	Pension	Total
	£000	Payments £000	Benefits £000	£000	£000	Payments £000	Benefits £000	£000
Mr P Markwick	10-15	0-5	5-10	20-25	100-105	5-10	25-30	135-140
<i>FYE</i>	<i>95-100</i>	-	-	-	-	-	-	-
Mr J Bragg	50-55	Nil	Nil	50-55	80-85	Nil	Nil	80-85
<i>FYE</i>	<i>75-80</i>	-	-	-	-	-	-	-
Mr P Higgs	75-80	10-15	25-30	115-120	65-70	0-5	20-25	90-95
Mr A Stenning	10-15	Nil	5-10	20-25	65-70	Nil	80-85	150-155
<i>FYE</i>	<i>65-70</i>	-	-	-	-	-	-	-
Mr R Brown	70-75	Nil	25-30	100-105	55-60	Nil	15-20	75-80
<i>FYE</i>	-	-	-	-	<i>70-75</i>	-	-	-
Mr P Cooke	50-55	Nil	30-35	80-85	-	-	-	-
<i>FYE</i>	<i>55-60</i>	-	-	-	-	-	-	-
Mr D Lawlor	50-55	0-5	0-5	55-60	-	-	-	-
<i>FYE</i>	<i>55-60</i>	-	-	-	-	-	-	-
Mrs H Gant	40-45	Nil	5-10	45-50	-	-	-	-
<i>FYE</i>	<i>55-60</i>	-	-	-	-	-	-	-
Mr D Picker	20-25	Nil	5-10	30-35	-	-	-	-
<i>FYE</i>	<i>55-60</i>	-	-	-	-	-	-	-
Mr M Mulvaney	30-35	Nil	0-5	35-40	-	-	-	-
<i>FYE</i>	<i>75-80</i>	-	-	-	-	-	-	-
Mr A Kubinski	30-35	Nil	0-5	35-40	-	-	-	-
<i>FYE</i>	<i>70-75</i>	-	-	-	-	-	-	-

* *Full Year Equivalent*

None of the directors had any benefits in kind in either this year or the last.

Mr P Cooke, Mr D Lawlor and Mrs H Gant were seconded to the board in June 2015, when Mr A Stenning retired and Mr D Picker, Mr M Mulvaney and Mr A Kubinski were further seconded in November 2015, when Mr J Bragg resigned. Mr P Markwick resigned at the end of April 2015 and Mr P Higgs was promoted to Interim Chief Executive.

Prior year pensions and totals were restated to include pension benefits.

Median Staff Pay Ratio (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest- paid director in their organisation and the median remuneration of the organisation's workforce.

This calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. The salary of the person in the middle of the all salaries as at the year end is taken as the median salary value.

	2015-16	2014-15
Band of highest paid Director (£'000)	85-90	105-110
Range of staff remuneration	15-85	10-85
Median total for all staff excluding highest paid Director (whole £)	30,693	30,665
Remuneration Ratio	2.85	3.51

The mid-point of the banded remuneration of the highest-paid director in the Agency in the financial year 2015-16 was £87,500 (2014-15, £107,500). This was 2.85 times (2014-15, 3.51) the median remuneration of the workforce, which was £30,693 (2014-15, £30,665).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The main reason for the decrease in the ratio above was the departure of the existing Chief Executive with 11 years of experience compared to his interim replacement. Median salaries have not changed greatly over the previous year.

Pension Benefits

Pension benefits are provided through the Civil Service pension arrangements. From 1st April 2015, civil servants may be in one of five defined benefit schemes or three stakeholder schemes. The defined benefit schemes available are either a final salary scheme (classic, premium or classic plus); or a career average scheme (nuvos or alpha). 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, nuvos and alpha are increased annually in line with Pensions Increase legislation. The stakeholder schemes are non-statutory 'money purchase' arrangements provided by selected providers with an employer contribution.

Employee contributions are salary related based on the following contribution rates:

Annual Pensionable Earnings (full-time equivalent basis)	classic scheme		premium, classic plus and nuvos	
	Contribution rate %	Contribution rate %	Contribution rate / %	Contribution rate / %
	2015-16	2014-15	2015-16	2014-15
Up to £15,000	3.00	1.50	3.00	3.50
£15,001 - £21,422	4.60	3.00	4.60	5.00
£21,423 - £30,000	5.45	4.48	5.45	6.48
£30,001 - £51,005	5.45	5.27	5.45	7.27
£50,006 - £60,000	7.35	6.06	7.35	8.06
£60,000 - £150,000	7.35	6.85	7.35	8.85
Over £150,000	8.05	6.85	8.05	8.85

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights. Full-year equivalent (FYE) salaries are included for those directors joining or leaving the organisation part way through the year.

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 initial 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 for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In **nuvos** and **alpha** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of each scheme year (31 March) the member's earned pension account is credited with a percentage of their pensionable earnings in that scheme year (2.3% in nuvos, 2.32% in alpha) and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a 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 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of two 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 0.5% of pensionable salary to cover the cost of centrally-provided risk 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, 65 for members of nuvos and the applicable State Pension Age for members of alpha.

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulation 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Tax Allowance which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is 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.

Pension Information for 2015-2016 of Chief Executive and Management Board Members (Audited)

	Accrued pension at pension age at 31 March 2016 and related party lump sum	Real increase in pension and related lump sum at pension age	Cash Equivalent Transfer Value at 31 March 2016	Cash Equivalent Transfer Value at 31 March 2015	Real increase in Cash Equivalent Transfer Value	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Mr P Markwick * Chief Executive	20-25 (-)	0-2.5	410	397	7	-
Mr J Bragg ** Director	-	-	-	-	-	8,400
Mr P Higgs Director	5-10 (-)	0-2.5	149	117	13	-
Mr R Brown Director	0-5 (-)	0-2.5	28	12	10	-
Mr A Stenning * Director	30-35 (90-95)	0-2.5	697	688	8	-
Mr P Cooke Interim Director	20-25 (10-15)	2.5-5	380	313	18	-
Mr D Lawlor Interim Director	10-15 (35-40)	0-2.5	270	260	2	-
Mrs H Gant Interim Director	5-10 (0-5)	0-2.5	159	149	5	-
Mr D Picker Interim Director	15-20 (45-50)	0-2.5	260	244	3	-
Mr M Mulvaney Interim Director	25-30 (75-80)	0-2.5	590	583	5	-
Mr A Kubinski Interim Director	15-20 (55-60)	0-2.5	347	331	3	-

* Accrued pension at the time of departure.

** Charge in year up to date of departure.

Compensation for loss of office

There were no payments for compensation for loss of office in the year.

Staff Costs

	2015-2016 £'000	2014-2015 £'000
Wages and salaries	5,958	6,496
Social security costs	462	518
Other pension costs	1,044	1,063
Agency, temporary and contract staff	3,888	3,666
Total net costs	11,352	11,743

Average Numbers

Full-time equivalents	2015-16		2014-15	
	Permanent	Others	Permanent	Others
Senior Management	9	0	9	2
Professional & Technical	105	24	117	32
Administrative	31	19	31	13
Total FTE's	145	43	157	47

Gender Analysis

Full-time equivalents	2015-16		2014-15	
	Male	Female	Male	Female
Senior Management	8	1	10	1
Professional & Technical	107	22	115	34
Administrative	17	33	14	30
Total FTE's	132	56	139	65

Throughout the year VCA has again been focusing on getting the right people in the right place with the right skills at the right time. Other staff consist of locally employed staff and temporary contractors.

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 30 September 2007.

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

For 2015-2016, normal employer's contributions of £1,025,525 (2014-2015; £1,038,602) were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% (2014-2015; 16.7% to 24.3%) 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 2015-2016 payments of £18,573 (2014-2015; £24,369) were made to this scheme.

Consultancy costs

There were no consultancy costs incurred in year (2014-2015 £nil)

Off-payroll arrangements

There were no off-payroll arrangements during the year.

Staff absence

Staff absence at VCA has traditionally been low, at around 5 days per head per year. 2015-16 closed with 5.3 days which was within the target set by DfT of 7 days.

Staff training and development

We have continued to deliver technical training courses of a high quality to meet operational delivery requirements.

All staff have access to Civil Service Learning to fulfil CPD / Professional and development demands. Staff undertake development as part of their individual learning plan which is discussed at the end of the year and throughout to ensure it has been fulfilled and targets set for the forthcoming year.

We fully support the 5 training days a year initiative and we have mandated some essential learning for all staff. We promoted Learning at Work Week in May 2015.

We have also managed a number of work experience placements in 2015-16 and introduced four apprentices to our workforce.

Staff engagement

VCA works very hard to communicate with its staff and to improve engagement. VCA is consistently a high performer in the Civil Service annual Engagement Survey, and this year scored 62% (down slightly from prior year at 64%). Overall throughout the DfT (including agencies) the engagement score is 54%.

Action has been taken during the financial year to introduce, maintain or develop arrangements aimed at:

(a) providing employees systematically with information on matters of concern to them through regular communication; and

(b) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company through providing information on business performance.

Policy on Employment of Disabled persons

VCA, as part of the civil service, is an equal opportunity employer. This means, inter alia,

(a) giving full and fair consideration to applications for employment by the agency made by disabled persons, having regard to their particular aptitudes and abilities;

(b) continuing the employment of, and for arranging appropriate training for, employees of the agency who have become disabled persons during the period when they were employed by the agency, and;

(c) providing for the training, career development and promotion of disabled persons employed by the agency.

Employee Involvement

Action has been taken during the financial year to introduce, maintain or develop arrangements aimed at:

(a) providing employees systematically with information on matters of concern to them as employees through regular communication;

(b) consulting employees or their trade union representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests; and

(c) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the organisation through providing information on business performance.

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) 02/10

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 taxpayer's 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 Permanent Secretary of the Department for Transport 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 Vehicle Certification Agency's assets, are set out in Managing Public Money published by the HM Treasury.

The Accounting Officer is required to confirm that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

ACCOUNTING OFFICER INTRODUCTION

The Permanent Secretary of the DfT appointed me as Interim Chief Executive for VCA from the 1st of May 2015 following the resignation of Paul Markwick. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of VCA's policies, 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 the HMT Code of good practice for Corporate Governance in Central Government Departments and Managing Public Money.

Corporate Governance is the way in which organisations are directed and controlled, and good governance is vital to effective financial and risk management. HM Treasury's 'Managing Public Money' and 'Financial Reporting Manual' require that I provide a statement on how I have discharged my responsibility to manage and control VCA's resources during the year. I have provided details below of how VCA's system of corporate governance has operated during 2015-16, including any areas where the system has not operated in line with the HMT Code of good practice for Corporate Governance in Central Government Departments.

GOVERNANCE FRAMEWORK

As an Executive Agency of DfT, VCA follows the arrangements as set out in the Department's 2016 Framework document. The VCA annual business plan was submitted to the Secretary of State for endorsement of the key performance measures at the beginning of the year and regular reporting of progress against these has taken place to the Managing Director of Motoring Services.

THE BOARD

This provides executive leadership within a framework of prudent and effective controls which enables risk to be assessed and managed and supports me in discharging my role as Accounting Officer. It sets VCA's strategic aims, ensures financial and human resources are in place to meet objectives and reviews business performance. It also sets VCA's values and standards and ensures obligations to customers and other stakeholders are understood and met. As I am the Agency Accounting Officer, I Chair the Board. This provides me overall decision making authority on matters for which I am responsible and may be subject to Parliamentary scrutiny.

We revised the Board structure during the year following the retirement of Chief Technology, Standards and Government Activities Officer, Tony Stenning in June 2015, and as a result of the resignation of Chief Operating Officer, John Bragg who left VCA in November 2015. The Interim Board has continued to operate effectively during the remainder of the year.

Board member	Title	No of meetings attended
Paul Markwick (resigned April 2015)	Chief Executive	1/1
Richard Brown	Chief Finance & Resources Officer	10/11
John Bragg (resigned November 2015)	Chief Operating Officer	7/7
Paul Higgs	Interim Chief Executive	11/11

Tony Stenning (retired June 2015)	Chief Technology, Standards and Government Affairs Officer	2/2
James Moore	Non-Executive Director	7/8
Dr. Susan Sharland	Non-Executive Director	8/8
Paul Cooke (Seconded June 2015)	Head Of Corporate Affairs	11/11
Dave Picker (Seconded November 2015)	UK Group Chief Engineer	4/6
Derek Lawlor (Seconded June 2015)	Head of Technology, Standards and Legislation	5/6
Helen Gant (Seconded June 2015)	Head of Statutory Operations	8/9
Michael Mulvaney (Seconded November 2015)	Regional Leader, VCA Asia Pacific	1/6
Alex Kubinski (Seconded November 2015)	President, VCA Americas	1/6

AUDIT COMMITTEE

The Audit Committee advises and supports the CEO to give assurance on risk, control and governance. The Audit Committee reviews the comprehensiveness of assurances in place to meet the Agency commitments to the DfT and reviews the reliability and integrity of these assurances, providing advice where applicable. This includes reviewing and advising on the implementation of accounting principles in conjunction with external auditors. The Audit Committee membership is exclusively non-executive with the two Board Non-Executive Directors (NEDs) plus a senior DfT Official. This year the Audit Committee was chaired by Dr. Susan Sharland.

PERFORMANCE MANAGEMENT COMMITTEE

VCA implemented the Civil Service wider Performance Management Framework at the end of March 2015. This change was implemented following the closure of the NCM project, to ensure VCA were consistent with other Agencies in the Department. We continued to bed in this process throughout 2015-16. The year end evaluation of staff performance process was further strengthened this year by the introduction of validation panels across the Agency. A final panel which included a NED reviewed the overall performance across the VCA.

HEALTH & SAFETY COMMITTEE

The HSC continues as an Agency wide forum, and in accordance with HSE guidance to advise and support the VCA CEO and Management Board on matters of health and safety policy, structure and communication, reviewing these against legal obligations. The HSC is chaired by Richard Brown, Chief Finance & Resources Officer, and was strengthened during the year to include more senior managers from across the VCA, the committee meets on a bimonthly basis to ensure all matters arising are dealt within an appropriate timeframe.

THE GOVERNANCE CULTURE

The Agency recognises that the culture we work in impacts on the organisation's success in terms of good governance. As Civil Servants, staff are bound by the Civil Service Code and adherence to the Nolan Seven Principles of Public Life. In addition, each Board evaluates the meeting's structure, content and presentation to facilitate informed decision making. VCA's Executive Directors considered the Agency's ongoing business needs and welcomed the experience of the Non-Executive Directors in providing the independent advice and external assurance required to ensure effective governance of the Agency.

RISK MANAGEMENT

The Agency follows HM Treasury guidance with the aim of managing risk to a reasonable level rather than to eliminate all risk from achieving policies, aims or objectives. VCA's positive culture of risk management is led by the Board which ensures policy and strategy is in place and supported through the embedded risk processes at each level of the Agency. The Agency Risk Manager is supported by the Chief Executive, who is the Agency Risk Champion, and the Chief Finance & Resources Officer. The Agency risk register is used by Internal Audit to inform the annual audit programme.

The Board reviews high level risks monthly which have arisen through either a top-down review or bottom-up reporting. The Agency attends the Department's regular Group Risk Management meetings and reports high level risks to the Managing Director of the Motoring Services Group through the Group Monthly Report and regular Agency Performance meetings.

The key risks that VCA monitored throughout 2015-16 are:

Loss of key staff – We did see some people leave the VCA during the year, but not at levels higher than natural wastage. We continued to develop existing staff expertise and competencies whilst monitoring workloads and responded with additional resource where possible. This was supported by overall staff engagement survey score which remained high during what was a difficult time for VCA and its staff; and

Loss of key customers – We mitigated this risk by focusing on our customer service, ensuring we delivered products and services in line with customer expectations, building on our relationships and growing our customer base.

INTERNAL CONTROL

VCA's integrated assurance framework defines a process by which the Chief Executive receives assurance on the management of risks associated with the achievement of VCA objectives and measures (both financial and non-financial).

Management controls

Directors and line management

The Board and senior management consider and review top risks faced by the VCA on a monthly basis at the Management Board or Executive meetings with the agency Risk Manager. Further reviews of the agencies risks are considered at the Audit Committee.

Performance reviews are undertaken between the Chief Executive, Finance Director and DfT where performance against the business plan is discussed.

Financial control

VCA produces a formal budget plan every year. Performance is monitored against this plan on a monthly basis between finance business partners and budget holders and by the Group Board. The plan also

includes non-financial performance measures which are also monitored monthly by the Group Board. During the year financial performance risks and opportunities were considered and reviewed.

VCA's finance team undertake a series of routine monthly checks to ensure the accuracy and validity of the financial records, reconciling account balances and ensuring control procedures have been applied. VCA operates a system of delegated authority to incur expenditure with defined approval limits for managers.

Management Assurance

Executive Directors complete the DfT led management assurance report on the full range of delegations, policies and procedures laid down by the Agency and the Department, the adequacy of the arrangements within their directorate and what remedial action is being taken where improvement is needed.

During 2015-16 the Agency has paid particular attention to improving:

- Risk Management – The Risk Manager continues to attend the DfT RTL Risk Coordinators meeting, working with Group colleagues to confirm that there is a consistent approach to Risk Management between the Agency and DfT and to ensure an understanding of potential impacts. The Risk Manager, with all of the individual risk owners, carries out a monthly review of all risks on the register, ensuring that the status of current risks is always up to date. Following a GIAA audit of Risk Management, a number of risk scores were revised to reflect mitigating actions undertaken or planned;
- Records Management – VCA has continued the rollout of the Enterprise Content Management project, to improve the search and accessibility of documents, to reduce the amount of paper documents filed, and thus to improve the Agency sustainability; and
- Succession Planning – Directors and Senior Managers have worked with HR Business Partners to identify business critical roles enabling the development of succession plans for key staff.

Macpherson & Analytical Models

I can confirm that VCA has established an appropriate Quality Assurance framework that is used for all business critical models. All models meeting the DfT criteria have been notified to the Department and sit on the appropriate list.

Internal audit

The VCA internal audit service is provided by the Government Internal Audit Agency (GIAA) using a combination of its own staff and external suppliers under a number of framework agreements. GIAA provides regular reports to the VCA Audit and Risk Committee as well as an overall independent opinion of the adequacy and effectiveness of the Agency's system of internal control, together with proposed actions for improvement which are agreed with management.

In the opinion of the Head of Internal Audit the 2015-16 assurance rating is assessed as **Moderate** – Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

Project and programme management

In managing successful programmes, PRINCE2 and Major Project Authority standards are inbuilt and monitoring of project development against these is an integral element to project and programme management. All project and programmes maintain risks and issues registers which follow the agency's risk reporting guidelines. Project and programmes are subject to business case approval.

Significant projects are subject to 'gateway reviews', an external peer review to assess the management of the project and the probability of successful implementation.

Data handling, security and information risk

The agency's data and information handling procedures comply with statutory and regulatory requirements. This includes, amongst others, the Data Protection Act (DPA), Freedom of Information Act, Environmental Information regulations, Computer Misuse Act and protection of Intellectual Property Rights.

Procurement and contract management

VCA did not undertake any significant procurement activity during the year and where possible. Crown Commercial Services framework agreements, predominately for ICT and General Goods and Services are utilised.

Review of effectiveness of internal control

As Accounting Officer, I have responsibility for reviewing the governance and effectiveness of the system of internal control within the VCA. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, managers and the executive team within the agency and maintenance of the internal framework, and comments made by external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the GIAA and plan to address any weaknesses identified and ensure a programme of continuous improvement of the system is in place.

Non-Executive directors' statement

During 2015-16, the Non-Executive Directors have been involved in both Board and major Board committee discussions and decisions in VCA. Based on this exposure to the organisation, and having received management and other independent assurance, we are content that there are no material issues requiring disclosure in the annual governance statement.

Conclusion

The above procedures provide me with reliable assurance that VCA procedures and internal controls have been effective throughout the year.

PAUL HIGGS
Interim Chief Executive and Agency Accounting Officer
14th July 2016

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 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; 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 & Staff Report and Parliamentary Accountability disclosures that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of the Agency and Accounting Officer's Responsibilities, the Chief Executive as 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, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with 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 Vehicle Certification Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Vehicle Certification Agency's affairs as at 31 March 2016 and of the net operating surplus 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 & Staff Report and the Parliamentary Accountability disclosures 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 Performance Report and Accountability 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration & Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
15th July 2016

STATEMENT OF COMPREHENSIVE NET INCOME

for the period ended 31 March 2016

		2015-2016	2014-2015
	Notes	£'000	£'000
Revenue	2	20,521	18,313
Cost of sales	3,4	(16,334)	(14,309)
Gross surplus		4,187	4,004
Administrative expenses - non Pay	3,4	(2,561)	(2,495)
Administrative expenses - pay	3,4	(462)	(1,222)
Trading surplus for the year		1,164	287
Foreign exchange translation gain		172	248
Interest receivable		1	-
Operating surplus for the year		1,337	535
Net gain on:			
- revaluation of intangibles	6	8	14
- revaluation of property, plant and equipment	7	937	12
Total comprehensive income for the period		2,282	561

Revenue and operating surplus are derived entirely from continuing operations.

The notes on pages 44 to 62 form part of these accounts.

STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Note	31 March 2016 £'000	31 March 2015 £'000
Non-current assets:			
Intangible assets	6	696	753
Property, plant and equipment	7	2,605	1,587
Total non-current assets		3,301	2,340
Current assets			
Inventories		552	690
Trade and other receivables	8	5,647	4,651
Cash and cash equivalents	9	5,660	3,722
Total current assets		11,859	9,063
Total assets		15,160	11,403
Current liabilities			
Trade and other payables	10	(2,964)	(2,095)
Provisions	11	(979)	(380)
Total current liabilities		(3,943)	(2,475)
Non-current assets plus net current assets		11,217	8,928
Non-current liabilities			
Trade and other payables	10	(11)	(15)
Provisions	11	-	(44)
Assets less liabilities		11,206	8,869
Taxpayers' equity			
General fund		10,042	8,650
Revaluation reserve	12	1,164	219
Total taxpayers' equity		11,206	8,869

PAUL HIGGS
Interim Chief Executive and Agency Accounting Officer
14th July 2016

The notes on pages 44 to 62 form part of these accounts.

STATEMENT OF CASH FLOWS

for the period ended 31 March 2016

	Note	2015-2016 £'000	2014-2015 £'000
Cash flows from operating activities			
Operating surplus		1,337	535
Adjustments for non-cash transactions			
Amortisation charges	3	153	239
Depreciation charges	3	205	244
Loss on disposal of non-current assets	3	37	1
Notional charges	5	55	47
Transfer from reserves		-	(93)
		<hr/>	<hr/>
		1,787	973
Decrease / (increase) in inventories		138	(42)
(Increase) in trade and other receivables	8	(996)	(850)
Increase / (decrease) in trade and other payables	10	865	(195)
Increase in provisions	11	555	64
		<hr/>	<hr/>
Net cash inflow from operating activities		2,349	(50)
Cash flows from investing activities			
Purchase of intangible assets	6	(122)	(214)
Purchase of property, plant and equipment	7	(289)	(231)
		<hr/>	<hr/>
Net cash outflow from investing activities		(411)	(445)
Cash flows from financing activities			
Proceeds from sale of property, plant and equipment		-	9
		<hr/>	<hr/>
Net cash inflow from financing activities		-	9
		<hr/>	<hr/>
Net increase / (decrease) in cash and cash equivalents in period		1,938	(486)
		<hr/>	<hr/>
Net increase / (decrease) in cash and cash equivalents in period		1,938	(486)
Cash and cash equivalents at the beginning of the period	9	3,722	4,208
		<hr/>	<hr/>
Cash and cash equivalents at the end of the period	9	5,660	3,722
		<hr/>	<hr/>

The notes on pages 44 to 62 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the period ended 31 March 2016

	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
Taxpayers' equity at 1 April 2015	8,650	219	8,869
Surplus for the year	1,337	-	1,337
Notional charges in the year (note 5)	55	-	55
Surplus on revaluation of non-current assets (note 12)	-	818	818
Backlog depreciation of re-valued non-current assets and loss on disposal (note 12)	-	127	127
Transfers to / (from) Reserves	-	-	-
Taxpayers' equity at 31 March 2016	10,042	1,164	11,206

For the period ended 31 March 2015

	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
Taxpayers' equity at 1 April 2014	8,161	193	8,354
Deficit for the year	535	-	535
Notional charges in the year (note 5)	47	-	47
Deficit on revaluation of non-current assets (note 12)	-	47	47
Backlog depreciation of re-valued non-current assets and loss on disposal (note 12)	-	(21)	(21)
Transfers to / (from) Reserves	(93)	-	(93)
Taxpayers' equity at 31 March 2015	8,650	219	8,869

The notes on pages 44 to 62 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

The financial statements have been prepared in accordance with the 2015-2016 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. Impending application of newly issued accounting standards not yet effective

There are a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2016, and have not been applied in these financial statements. The following new standards may affect the accounts if they are adopted by the FReM:

IFRS 9 addresses classification, measurement and impairment of financial assets and is still subject to analysis and consideration by HM Treasury with a view to include in the 2018-19 FReM. It is thought that IFRS 9 will result in terminology changes only.

IFRS 15 covers the recognition of revenues from contracts with customers. The impact on DVSA has yet to be assessed, however is not expected to be substantial, and will depend on any adaption by the FReM.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The probable impact is that leases currently categorised as operating leases will require the full value of the asset and liability to be included in the Financial Statements. The value of the associated lease liability is currently disclosed in Note 14.

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 enforcement work.

Accrued income is recognised in a number of ways, mainly on the basis of all those invoices raised within the first five working days of the month except at the year end when the deadline is extended slightly. MSC accrued income is recognised from a list provided by the US and UK offices for work completed in the previous month which will be invoiced in the middle of the current month where possible. China accrued income is recognised if the Type Approval certificates have been issued, on the basis of a charge out rate for the unbilled hours. Intra Government Income is accrued on the basis of simple apportionment.

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 non-current 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.

Plant & Equipment are stated at their cost, revalued 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	Buildings are depreciated over the lower of useful economic life or land lease period; land is not depreciated.
Transport equipment	4 years

g. Notional Charges - Audit Fee

The Vehicle Certification Agency is not charged a cash 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 and results in a credit to the statement of equity to reflect the fact that no transfer of resources is due.

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. Jobs older than one year are reduced by a provision of 25% to allow that they may never be charged, whilst items older than three years are fully written off.

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 4. 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 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. Holiday Pay

An individual employee's holiday pay year commences 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.

n. Cash and Cash Equivalents

Cash and cash equivalents represent the balance of commercial cash held in banks and accounts held within the Government Banking Service.

o. Provisions

Provisions are recognised in respect of legal or constructive obligations expected to result in an economic outflow, whose valuation is subject to a degree of uncertainty at the year end. These have been calculated using the best information available at the time of these accounts.

p. Going Concern

These accounts have been prepared on a 'going concern' basis as the Agency considers that this continues to be appropriate, on the basis that VCA has made a surplus in the year. For the 2015-16 financial year a deficit was predicted as a result of the loss of work previously carried out for BIS and Defra. However, we have worked hard to deliver a surplus this year and have estimated a surplus for the forthcoming year.

2. REVENUE

Revenue is derived entirely from continuing operations.

a. Fees and Charges

The following information summarises the final report to the Agency's management team for the period ending 31 March 2016.

2015-2016

	Business Plan Surplus / (Deficit) £'000	Full Cost £'000	Revenue £'000	Operating Surplus/ (Deficit) £'000
Product Certification	763	13,722	15,128	1,406
Management System Certification	(148)	1,912	2,132	220
Activities for Government	(1,225)	2,665	2,368	(297)
All other segments	229	885	893	8
Total	(381)	19,184	20,521	1,337

**Surplus for the year as
per statement of income**

1,337

2014-2015

	Business Plan Surplus / (Deficit) £'000	Full Cost £'000	Revenue £'000	Operating Surplus/ (Deficit) £'000
Product Certification	65	12,551	12,802	251
Management System Certification	-	2,016	2,141	125
Activities for Government	27	2,295	2,519	224
All other segments	8	916	851	(65)
Total	100	17,778	18,313	535

Surplus for the year as per
statement of income

535

Activities for Government are analysed in the related party note (note 16) and account for 11.54% (2014-2015: 13.75%) of total turnover and therefore is regarded a major group of customers.

All other segments contain sales in relation to Dangerous Goods, Vista and Point of Sale licences.

b. Geographical Analysis by office

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

	2015-2016				Total
	£'000 UK	£'000 Far East	£'000 Americas	£'000 China	£'000 Total
Turnover by geography	<u>13,792</u>	<u>2,112</u>	<u>2,494</u>	<u>2,123</u>	<u>20,521</u>

	2014-2015				Total
	£'000 UK	£'000 Far East	£'000 Americas	£'000 China	£'000 Total
Turnover by geography	<u>12,002</u>	<u>1,842</u>	<u>2,417</u>	<u>2,052</u>	<u>18,313</u>

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 India and Italy are accounted for in the UK office whilst the Japan office covers the Asia Pacific region including Australia, Malaysia and Korea and the US office covers Brazil.

No customers make up more than 10% of total turnover.

3. COST OF SALES AND ADMINISTRATIVE EXPENSES

Cost of sales is defined as that expenditure which is directly related to a service being supplied to a specific third-party customer or market. This includes direct materials, labour and variable overheads to the extent that these relate specifically to turnover.

Administrative expenses includes all costs relating to the general management of the business, training, technical support, and any other costs not included under cost of sales

Cost of sales and administrative charges are further analysed by expenditure type as follows:

	Note	2015-2016 £'000	2014-2015 £'000
Staff costs	4	11,352	11,743
Travel and subsistence		1,708	1,821
Overseas operational expenses		1,661	1,433
Bad debt provision		31	35
Admin provisions	11	555	64
Accommodation		662	703
Computer running costs		624	570
Communications		133	165
Legal and consultancy		292	261
Realised exchange loss		17	45
Exchange (gain) on translation		(172)	(248)
Training		90	84
Amortisation of intangible assets	6	153	239
Depreciation charges	7	205	244
Loss on disposal of non-current assets		37	1
DfT charges		36	34
Audit fee		55	47
Other admin expenses		1,745	537
Total cost of sales and administrative expenses		19,184	17,778

Other admin expenses include costs regarding the emissions project.

4. STAFF COSTS

Staff Costs comprise

	2015-2016 £'000	2014-2015 £'000
Wages and salaries	5,958	6,496
Social security costs	462	518
Other pension costs	1,044	1,063
Agency, temporary and contract staff	3,888	3,666
Total net costs	11,352	11,743

5. NOTIONAL CHARGES

	2015-2016 £'000	2014-2015 £'000
Audit fee	55	47
Total	55	47

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.

6. NON-CURRENT ASSETS: INTANGIBLE ASSETS

	Software Licences £'000	Software Applications £'000	Total £'000
Cost or Valuation			
As at 1 April 2015	129	1,627	1,756
Additions	6	116	122
Disposals	-	(178)	(178)
Reclassifications	-	-	-
Revaluations	1	15	16
As at 31 March 2016	136	1,580	1,716
Amortisation			
As at 1 April 2015	105	898	1,003
Effect of relife of assets	(4)	(12)	(16)
Charge for year	3	166	169
Disposals	-	(144)	(144)
Revaluations	1	7	8
As at 31 March 2016	105	915	1,020
Net Book Value			
As at 31 March 2016	31	665	696
As at 1 April 2015	24	729	753

Note 6 (cont'd)

	Software Licences £'000	Software Applications £'000	Total £'000
Cost or Valuation			
As at 1 April 2014	125	1,394	1,519
Additions	3	211	214
Disposals	-	-	-
Reclassifications	-	-	-
Revaluations	1	22	23
As at 31 March 2015	<u>129</u>	<u>1,627</u>	<u>1,756</u>
Amortisation			
As at 1 April 2014	95	660	755
Charge for year	10	229	239
Disposals	-	-	-
Revaluations	-	9	9
As at 31 March 2015	<u>105</u>	<u>898</u>	<u>1,003</u>
Net Book Value			
As at 31 March 2015	<u>24</u>	<u>729</u>	<u>753</u>
As at 1 April 2014	<u>30</u>	<u>734</u>	<u>764</u>

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 2015-2016 the total amount taken to the statement of income as impairment in value was zero (2014-2015; £Nil). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

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

	Buildings	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 2015	906	95	315	1,020	659	2,995
Additions	-	-	19	35	235	289
Disposals	-	-	(10)	(35)	(26)	(71)
Reclassification	-	-	-	-	-	-
Revaluations	792	-	-	10	-	802
As at 31 March 2016	1,698	95	324	1,030	868	4,015
Depreciation						
As at 1 April 2015	130	41	196	714	327	1,408
Effect of relife of assets	-	(4)	(7)	(126)	(31)	(168)
Charge for year	66	10	17	183	97	373
Disposals	-	-	(10)	(33)	(25)	(68)
Revaluation	(142)	-	-	7	-	(135)
As at 31 March 2016	54	47	196	745	368	1,410
Net Book Value						
As at 31 March 2016	1,644	48	128	285	500	2,605
As at 1 April 2015	776	54	119	306	331	1,587
Cost or Valuation						
As at 1 April 2014	906	93	308	935	515	2,757
Additions	-	20	7	72	132	231
Disposals	-	(17)	-	-	-	(17)
Reclassification	-	-	-	-	-	-
Revaluation	-	(1)	-	13	12	24
As at 31 March 2015	906	95	315	1,020	659	2,995
Depreciation						
As at 1 April 2014	85	38	178	587	271	1,159
Charge for year	45	10	18	121	50	244
Disposals	-	(7)	-	-	-	(7)
Revaluation	-	-	-	6	6	12
As at 31 March 2015	130	41	196	714	327	1,408
Net Book Value						
As at 31 March 2015	776	54	119	306	331	1,587
As at 1 April 2014	821	55	130	348	244	1,598

Note 7 (cont'd)

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 2015-2016 the total amount taken to the statement of income as impairment in value was £Nil (2014-2015; £ Nil). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

Non-dwelling land and buildings are carried at professional valuation on the basis of depreciated replacement cost. The valuation was carried out as at 30 September 2015 by the DVS, Property Specialist for the public sector.

8. TRADE AND OTHER RECEIVABLES

	At 31 March 2016 £'000	At 31 March 2015 £'000
Trade receivables	4,000	3,379
Other receivables	109	128
Prepayments	498	527
Accrued income	1,040	617
Total	5,647	4,651

The Agency has no receivables due after more than one year, except for salary advances of which £3,792 (2014-2015; £1,175) is due after one year.

9. CASH AND CASH EQUIVALENTS

	At 31 March 2016 £'000	At 31 March 2015 £'000
GBS balance	546	236
UK current account	3,525	2,418
Cash in hand and at other banks	1,589	1,068
Total	5,660	3,722

10. TRADE AND OTHER PAYABLES

	At 31 March 2016 £'000	At 31 March 2015 £'000
Amounts falling due within one year		
Trade payables	78	90
Other payables	544	531
Supply payables	4	4
Accruals	1,904	1,134
Deferred income	434	336
Total amounts falling due within one year	2,964	2,095
Included in other payables are:		
Deposits from manufacturers	191	139

The accruals balance at 31 March 2016 includes £252,542 (2014-2015; £254,252) in respect of VCA's March 2016 payroll cost due to DfT. Also included in accruals as at 31 March 2016 is the holiday pay accrual of £286,089 (2014-2015; £229,963) as required by IAS19.

Amounts falling due after more than one year

	At 31 March 2016 £'000	At 31 March 2015 £'000
Supply payables	11	15
Total amounts falling due after more than one year	11	15

11. PROVISIONS

	Provisions £'000
Balance at 1 April 2015	424
Provisions added in the year	555
Provisions utilised in the year	-
Provisions released in the year	-
	<hr/>
Balance at 31 March 2016	979
	<hr/>
Balance at 1 April 2014	360
Provisions added in the year	64
Provisions utilised in the year	-
Provisions released in the year	-
	<hr/>
Balance at 31 March 2015	424
	<hr/>

Provisions consist of a dilapidation provision of £321,891 (2014-2015; £44,200) due within one year and other provisions of £657,220 (2014-2015; £379,783) are in relation to a provision to HMRC for overseas allowances. The provisions have been calculated in accordance with IAS 37 using 2015-2016 costs and current Government rates where applicable. HMRC were subsequently paid £489,715 in settlement of a long running provision in April 2016.

	31 March 2016 £'000	31 March 2015 £'000
EXPIRING:		
- within one year	979	380
- in second to fifth years inclusive	-	44
	<hr/>	<hr/>
Total	979	424
	<hr/>	<hr/>

12. RECONCILIATION OF REVALUATION RESERVE

For the year ended 31 March 2016

	Buildings	Software Applications & Licences	Transport Equipment	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2015	-	116	-	15	54	34	219
deficit on revaluation of non-current assets	792	16	-	-	10	-	818
Backlog depreciation of re-valued non-current assets	142	(8)	-	-	(7)	-	127
As at 31 March 2016	934	124	-	15	57	34	1,164

RECONCILIATION OF REVALUATION RESERVE

For the year ended 31 March 2015

	Buildings	Software Applications & Licences	Transport Equipment	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2014	-	102	1	15	47	28	193
Surplus on revaluation of non-current assets	-	23	(1)	-	13	12	47
Backlog depreciation of re-valued non-current assets	-	(9)	-	-	(6)	(6)	(21)
As at 31 March 2015	-	116	-	15	54	34	219

13. CAPITAL COMMITMENTS

The Agency has capital commitments for intangible non-current assets of £Nil (31 March 2015; £17,100) and property, plant & equipment of £15,336 (31 March 2015; £Nil) as at 31 March 2016.

14. COMMITMENTS UNDER LEASES

The Agency has commitments for future minimum lease payments under non-cancellable operating leases as follows:

	31 March 2016 £'000	31 March 2015 £'000
EXPIRING:		
Land and buildings - within one year	228	296
Land and buildings - in second to fifth years inclusive	315	368
Land and buildings - over five years	450	505
Total	993	1,169

Total rentals for 2015-2016 of £332,758(2014-2015; £322,599) were charged to the statement of income. At present there are no finance leases.

15. CONTINGENT LIABILITIES

VCA carries contingent liabilities issues which have been estimated at a total maximum value of £400,000.

16. RELATED PARTY TRANSACTIONS

VCA is an executive agency of the DfT.

The DfT is regarded as a related party. During the year, VCA has had a number of material transactions with the Department. Income in 2015-2016 from the Department was £2,402,681 (2014-2015; £1,118,636). VCA also received sales income from other government departments of £31,471 (2014-2015; £1,431,411). In addition, charges made to the VCA by the DfT amounted to £173,573 (2014-2015; £105,877) and other government departments £118,205 (2014-2015; £15,359).

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.

17. 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 as it holds only low risk salary advances with staff. In addition financial assets and liabilities generated by day-to-day operational activities are not linked to long term credit facilities. The short-term liquidity and interest rate risks are therefore slight.

Loans and receivables:	Note	At 31 March 2016 £'000	At 31 March 2015 £'000
Cash and cash equivalents	9	5,660	3,722
Trade receivables	8	4,000	3,379
Other Receivables	8	109	128
Accrued Income	8	1,040	617
Total		10,809	7,846

Financial Liabilities by category	Note	At 31 March 2016 £'000	At 31 March 2015 £'000
Financial liabilities measured at amortised cost:			
Trade payables	10	78	90
VAT payable	10	-	-
Other payables	10	544	531
Accruals	10	1,904	1,134
Total amounts falling due within one year		2,526	1,755
Included in other payables are:			
Deposits from manufacturers		191	139

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.

b. Credit Risk (cont'd)

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.

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 2016			
	Note	Neither overdue nor individually impaired £'000	Overdue but not individually impaired £'000	Individually impaired £'000	Total carrying value £'000
Cash and cash equivalents	9	5,660	-	-	5,660
Trade receivables	8	2,041	1,737	222	4,000
Other receivables	8	109	-	-	109
Accrued income	8	1,040	-	-	1,040
Total		8,850	1,737	222	10,809

The Agency has £1,655,450 intra-departmental account receivable balances included in Financial Assets and £nil with other Government departments. Assets subject to insolvency procedures or on an age basis against specific debts are overdue for payment by at least 180 days, across all the sales ledgers are fully provided.

Financial assets that are overdue but not individually impaired

	At 31 March 2016			
	Overdue 0-1 months £'000	Overdue 1-3 months £'000	Overdue over 3 months £'000	Total £'000
Trade receivables	1,013	419	305	1,737
Total	1,013	419	305	1,737

Reconciliation of Bad Debt Provision	2015-2016 £'000	2014-2015 £'000
Balance at 1 April 2015	209	184
UK (reductions) / additions	(5)	40
USA reductions	(26)	(1)
Japan additions	1	(15)
Australia reductions	(1)	1
China additions	7	-
Brazil additions	2	-
Europe additions	5	-
India additions	30	-
Balance at 31 March 2016	<u>222</u>	<u>209</u>

c. Liquidity Risk

Maturity of financial liabilities	Note	At 31 March 2016			Total £'000
		On Demand £'000	Not more than 3 months £'000	Over 3 months but not more than 1 year £'000	
Trade payables	10	78	-	-	78
VAT	10	-	-	-	-
Other payables	10	544	-	-	544
Accruals	10	1,904	-	-	1,904
Total		<u>2,526</u>	<u>-</u>	<u>-</u>	<u>2,526</u>

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. Government manages liquidity by requiring departments to provide cash flow forecasts.

d. Foreign Currency & Exchange Translation Risk

The Agency is subject to exposure on the translation of the assets and liabilities of its overseas operations into its reporting currency, sterling. The Agency's translation exposures on the Statement of Financial Position are to US dollar, Japanese yen, Australian dollar, Malaysian ringgit, Chinese renminbi, Brazilian real, Indian rupee and the Euro. These exposures are kept under continuous review by management. The Agency's policy is to broadly match the currency of payables and receivables with the currency of cash flows arising from the Agency's underlying operations. Within this overall policy, the Agency aims to minimise all translation exposure where it is practicable and cost-effective to do so through matching currency assets with currency liabilities.

The Agency faces currency exposures arising from the translation of profits earned in foreign currency operations; these exposures are not hedged, in line with Managing Public Money principles, but the exposure to the Agency is not considered to be material given that we regularly repatriate money from the bank accounts held in foreign currencies when rates are favourable, thus crystallising and mitigating the exposure.

Sensitivity Analysis

A 10 per cent strengthening / weakening of sterling against the foreign currencies the Agency is exposed to, would have decreased / increased the year-end net assets by £240k and £264k respectively. The table below shows how this is comprised.

£000s	USA	Japan	Australia	China	Brazil	Malaysia	Europe	India	Total
Net assets at 31 March in GBP	1,024	1,002	5	268	44	9	182	105	2,639
Impact if GBP weakens 10%	102	100	1	27	4	1	18	11	264
Impact if GBP strengthens 10%	-93	-91	0	-24	-4	-1	-17	-10	-240

18. EVENTS AFTER THE REPORTING PERIOD

Consultation

At the end of 2015, the Department of Transport launched a consultation exercise aimed at informing future strategy for its three motoring services agencies, of which VCA is one.

The resulting Motoring Services Strategy was published on the 12th May 2016. As a result of work carried out to inform the strategy, a decision was made to explore the potential of a third party, private sector organisation to take on the Management Systems Certification services currently offered by the VCA.

The primary reason for exploring this option is to allow VCA to focus on the delivery of statutory services, such as vehicle type approval. This move also supports the challenge from Government to look at services that do not necessarily need to be delivered in the public sector because of level of coverage offered by the private sector.

As a result of the work carried out by the Department of Transport and VCA, a decision has been made to sell the Management Systems Certification business, which is a small part of the Vehicle Certification Agency. The Department of Transport will be launching a competition via the Official Journal of the European Union (OJEU) in early July 2016 to identify a potential buyer to take on the this part of VCA.

It is hoped that this process will conclude with the sale of the MSC business to a third party, private sector organisation by the end of 2016. Letting a competition is clearly a significant step, however it is an early step in a longer process so we cannot at this stage anticipate the outcome. In the meantime we will continue to provide services to our customers and operate on a business as usual basis. The Department of Transport is looking to achieve the best possible deal for the taxpayer and services will not be affected while the sale is completed.

EU Referendum

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European

Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

Currency

Following the result of the vote to leave the European Union, sterling weakened against all our trading currencies. Note 17d provides an analysis of the Agency's foreign exchange risk including its sensitivity to rate fluctuations.

The accounts were authorised for Issue (released to the Secretary of State to lay before Parliament) on 11 July 2016 by Paul Higgs as Interim Chief Executive and Agency Accounting Officer.